البنك العربي المتحد
UNITED ARAB BANK

Annual Report 2020

www.uab.ae

His Highness
Sheikh Khalifa bin Zayed Al Nahyan

President of the United Arab Emirates
and Ruler of Abu Dhabi

His Highness
Sheikh Mohammed bin Rashid Al Maktoum

Vice-President of the United Arab Emirates
and Ruler of Dubai

His Highness
Sheikh Mohammed bin Zayed Al Nahyan

Crown Prince of Abu Dhabi and Deputy Supreme
Commander of the UAE Armed Forces

His Highness
Dr. Sheikh Sultan bin Mohammed Al Qasimi

Supreme Council Member and Ruler of Sharjah

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Contents


Excellence.
Experience.
Efficiency.

Vision

United Arab Bank will be the trusted partner and the UAE bank of choice for our customers, shareholders, and employees, leading the way to greater financial prosperity while remaining committed to the highest integrity standards.

Mission

United Arab Bank is committed to build sustainable long-term partnerships with our key stakeholders, offering a superior customer experience, creating shareholder value, and adopting an innovative banking approach while remaining loyal to our nation's heritage and contributing to the overall development of the UAE.

- **Our Customers:** Committed to consistently deliver a superior customer experience and adopt an innovative banking approach, sharing in the success of our customers.
- **Our People:** Committed to help our people grow within a high performance culture that attracts, develops, and rewards talent and contribution.
- **Our Community:** Committed to contribute to our community and to make a difference.
- **Our Shareholders:** Committed to create consistent long-term shareholder value and ensure sustainable growth.
- **Our Regulators:** Committed to apply the highest standards of corporate governance and work ethics.

Values

- **Integrity:** in conducting our business and managing stakeholder relationships.
- **Customer Focus:** in orienting our activities to achieve optimum customer satisfaction.
- **Competence:** to deliver enhanced levels of performance.
- **Consistency:** in maintaining the commitments and standards that we set.
- **Courteousness:** as the primary benchmark for our behavior and conduct.

Message from the Chairman

Dear Shareholders,

On my behalf and on behalf of the board members, I am pleased to present to you the annual report and audited financial statements of the United Arab Bank (UAB) for the fiscal year ending on December 31, 2020.

The year 2020 was a period that saw many unprecedented challenges, mainly represented by COVID-19 and its repercussions, which affected companies, the government and private sectors, left formidable challenges to the economy and society and led to a complete halt of business in most countries and economies around the world. Thanks to the vision and directives of its wise leadership, the UAE was one of the earliest countries to adopt a systematic plan to confront this sudden threat. A total of AED395 billion in economic support packages and initiatives were provided by the federal government and local governments since the onset of the pandemic with the aim of supporting the UAE's economy in general in the face of the COVID-19 repercussions. The UAE government also took many successful measures to improve the ease of doing business and reduce fees and costs to ensure continued momentum of the economic activity.

The UAE banking sector continued to be strong and was able to quickly adapt to developments in 2020. While banks around the world faced a state of uncertainty when dealing with the economic challenges resulting from the outbreak of COVID-19, the banks operating in the UAE dealt with these repercussions most efficiently and passed a real test, which confirmed their capability to excel and keep progressing efficiently. The UAE's success is attributed to the strong foundations of the UAE banking sector as well as the wise management and high efficiency of the Central Bank of the UAE (CBUAE), headed by His Highness Sheikh Mansour bin Zayed Al Nahyan, Deputy Prime Minister, Minister of Presidential Affairs and Chairman of the CBUAE, who launched an initiative to transform the CBUAE into one of the top 10 central banks globally.

Optimism about the strong recovery of the UAE economy is confirmed day by day through indicators that promise a return to growth, while the data of banks and financial institutions were encouraging as the sector's total assets were growing and high liquidity and solvency indicators were maintained. This was confirmed by the data of the CBUAE, which played a fundamental role in the stability of the UAE monetary, financial and banking system through rapid and timely intervention; namely, the 'targeted comprehensive economic support plan' and an integrated set of support measures related to financing, liquidity, lending, capital and many other regulatory facilities. All these measures and facilities provided the necessary support and helped banks play their role more effectively without pressures during difficult and challenging times. The plan actually succeeded in enhancing the banking sector's ability to support individuals and companies affected by the COVID-19 repercussions.

The UAE banking sector was firmly determined to face the crisis and played a pivotal role in supporting the plans implemented by our prudent government to keep the UAE safe and prosperous under the leadership of our rulers who paved the way for the UAE to be successful and instilled feelings of strength and solidarity in the minds of its people. We at the UAB provided all possible assistance to our individual and corporate customers, who were suffering from the repercussions of the crisis, by launching various support packages and reducing many charges, fees and fines for such customers.

Despite the negative effects of the pandemic on most world economies, the UAE's GDP is expected to grow by 3.6 per cent by the end of this year, according to the CBUAE's preliminary estimates. In October 2020, the UAE ranked first in the Arab world in the post-COVID economic recovery index published by the Horizon Research Group, which is made up of a panel of experts from the United Nations and the World Economic Forum.

We look to the future with confidence and optimism, as we will strive to achieve our strategic goals, carry on our digital transformation journey and continue to seize whatever opportunities are available to achieve growth and increase our market share.

On behalf of the board of directors, I am pleased to extend heartfelt appreciation to His Highness Sheikh Khalifa bin Zayed Al Nahyan, President of the UAE and Ruler of Abu Dhabi, His Highness Sheikh Mohammed bin Rashid Al Maktoum, Vice President and Prime Minister of the UAE and Ruler of Dubai, His Highness Sheikh Mohammed bin Zayed Al Nahyan, Crown Prince of Abu Dhabi and Deputy Supreme Commander of the UAE Armed Forces, and His Highness Sheikh Dr. Sultan bin Muhammad Al Qasimi, Supreme Council Member and Ruler of Sharjah. I would like also to thank the CBUAE for the great support provided to us and to the banking sector in general.

Finally, I would like to extend my greetings and thanks to all shareholders and customers for their trust in us, to the executive management and all the bank's employees for their efforts and co-operation throughout the year.

H.E. Sheikh Faisal bin Sultan bin Salem Al Qassimi
Chairman of the Board of Directors

> "We look to the future with confidence and optimism, as we will strive to achieve our strategic goals, carry on our digital transformation journey"

Message from the Chief Executive Officer

Dear Shareholders,

The year 2020 was an exceptional year with so many unprecedented challenges that faced the countries and economies all over the world due to the outbreak of COVID-19 and the accompanying comprehensive ban and lockdown measures that affected most business sectors. Likewise, this pandemic affected the entire banking sector including us, as we were placed in the face of conditions and obstacles that we had not experienced before in terms of work efficiency and service provision. Ever since the COVID-19 crisis emerged, our resources and efforts focused on protecting and supporting our customers, colleagues and community. Undoubtedly, the investment that the bank started in 2019 in developing and modernizing the technological infrastructure and hence moving forward towards the digital world has proved effective for increasing our ability to quickly adapt to the COVID-19 repercussions. As a result, the bank succeeded in overcoming the pandemic, mitigating its repercussions effectively and responding instantly to customer needs.

Our 2020 financial results reflected these external factors. We adopted a proactive and prudent approach to setting up provisions, as COVID-19 had a clear impact mainly on provisions, not to mention the inherited problems. As a result, the bank announced a net loss of AED668 million for 2020 as compared to a net loss of AED470 million in 2019. The balance sheet of the United Arab Bank (UAB) still maintains its sound position supported by strong coverage of impairment provisions, good liquidity and capital adequacy ratios.

Concurrently, more customers opted to use the bank's digital channels, and an unprecedented completion rate in digital banking transactions was recorded. In the meantime, the bank continued to monitor and control costs strictly and succeeded in keeping the operating expenses at appropriate levels. Our cost management strategy aims at striking a balance between initiatives to improve efficiency on the one hand and continuous injection of investments as necessary to achieve our strategic goals on the other.

In this context, not only did the bank's digital transformation map maintain the right track, but COVID-19 enhanced that transformation and accelerated its pace. Thus, the bank soon reaped the fruits of the proactive steps that it took when it gave priority to implementing the digital transformation map, as our digital capabilities contributed to ensuring business continuity during the crisis.

During the pandemic, the human element formed a pillar of our ability to stay on the right track, as we succeeded in rapidly and smoothly transitioning to the remote work system with minimal impact on our operations. Add to this, our success in the rapid transformation helped us serve our customers through our digital channels. As employees began to return to work after the lockdown period, we implemented safety measures to maintain their health and safety.

The bank continued its commitment to support government initiatives and launched various initiatives in order to support our customers, particularly companies and businesses, help restructure or postpone their obligations in line with the cash flow, waive fees, extend loan repayment periods and reduce cash advance fees. This was part of our commitment to strengthen the national economy and comply with the directives of the UAE government to support customers and mitigate the financial repercussions resulting from the outbreak of COVID-19.

The year 2020 was actually a year of challenges; we continued our digital transformation journey, which we considered an essential step towards keeping pace with the requirements of the future, enhancing customer experience and bringing it to higher levels of digital services such as online banking services, mobile banking services, website, ATMs, call centers and the IVR system in addition to the initiatives to automate the current manual processes using process automation and direct processing devices and the launch of solutions for automating central banking operations in order to achieve higher operational efficiency.

As part of our efforts to move forward in the process of sustainable recovery, we launched during the year a number of initiatives aimed at building solid foundations that would enable the bank to face challenges and deal with emerging opportunities. Likewise, we continued to focus on improving efficiency and strengthening the balance sheet with the aim of immunizing the bank from potential risks and revenue volatility. These measures included approval of additional provisions to align the loss ratio at default and the allocation of new provisions to settle the non-performing loan portfolio. In the meantime, we embarked on implementing a precise policy to control and reduce operational expenditures and focused on reorienting and adapting the bank's activities to respond to the market needs. We also reviewed our business strategy to ensure it was in line with the developments and regulatory procedures and increased our focus on digital initiatives, investment in infrastructure, adoption of a conservative approach to risk management and retention of the most qualified personnel to be able to keep growing over the upcoming years.

Part of our attention is paid to enhancing the customers' banking experience by offering innovative products and services that meet their banking and financial needs and have a distinguished competitive value. We also co-ordinate and simplify the bank's operations, allowing more time to our employees to focus on customers and their needs. We were able to forge ahead on the digital transformation journey, where technological development is the essential feature of success in our world today. From this standpoint, we succeeded in launching the bank's new mobile app, which is distinguished for its attractive new look, smooth use and many other advantages.

Moreover, we continued to strengthen the human cadres, support systems and the necessary infrastructures and review the procedures in place in order to achieve the necessary efficiency for these systems. Concurrently, the governance system was improved to ensure that the systems and laws regulating banking work are followed at various levels with a focus on the hazard prevention principle in order to protect the bank and enable it to confront risks. As we look to the future, our digital transformation strategy will remain at the forefront of our priorities as a basis for enhancing our competitiveness and providing an exceptional banking experience to our customers. While implementing the digital roadmap, we will exert continuous efforts to achieve diversification, which is highly important for mitigating risks, opening the door to new opportunities to expand the range of our products and services and creating broader prospects for growth opportunities. We will also continue to invest in everything that improves the banking experience of our customers by launching a number of new banking services and products that keep up with their aspirations.

Finally, and on behalf of the executive management team, I am pleased to extend my sincere thanks and appreciation to the esteemed chairman and members of the board for their valuable directives and to our honorable customers for their continued loyalty and trust in us.

I also extend my thanks and appreciation to our employees for their dedication and sincerity in performing their tasks because without these distinguished efforts, we would not have been able to go through a year full of difficulties and challenges.

Ahmad Abu Eideh
Chief Executive Officer

> "As we look to the future, our digital transformation strategy will remain at the forefront of our priorities as a basis for enhancing our competitiveness and providing an exceptional banking experience to our customers"

Board of Directors

H.E. Sheikh Faisal bin Sultan bin Salem Al Qassimi
CHAIRMAN OF UAB

Re-Elected to the Board in 2018 for a term of 3 years

Founder of United Arab Bank, H.E. Sheikh Faisal bin Sultan bin Salem Al Qassimi has served as the Chairman of the Board of Directors since the Bank's inception in 1975 and has since then remained the largest single individual shareholder of the Bank.

Beyond his instrumental role at UAB, H.E. Sheikh Faisal is currently the Chairman of the Board of Directors of a number of private companies. He also formerly served as the Chairman of the Board of Arab Organization of Industries and Establishment.

H.E. Served in the UAE Armed Forces in different capacities prior to retiring at the rank of Major General including Under Secretary of the Ministry of Defense, Chief of Staff, and Chairman of the Court of Crown Prince at the time – H.H. Sheikh Khalifa bin Zayed Al Nahyan.

H.E. Sheikh Faisal bin Sultan bin Salem Al Qassimi graduated from Jordanian Officer Cadet School and Mons Officer Cadet School in UK.

External Board Appointments:

- Chairman – GIBCA Group of Companies
- Chairman – Faisal Holding LLC
- Chairman – Grand Stores
- Chairman – Hospitality Management Holdings LLC

Mr. Omar Hussain Alfardan

VICE CHAIRMAN OF UAB

Chairman – Board Governance and Remuneration Committee

Re-Elected to the Board in 2018 for a term of 3 years

Mr. Alfardan holds a Bachelor's Degree in Business Administration and a Master's Degree in Finance from Webster University in Geneva, Switzerland.

External Board Appointments:

- Chairman of the Board of Directors at Alternatif Bank in Turkey
- Managing Director – The Commercial Bank (P.S.Q.C.)
- President and CEO – Alfardan Group and its subsidiaries (Automotive, Properties & Hospitality),
- Board Member of Alfardan Subsidiaries including Jewellery, Investment and Marine Services
- Board Member – Qatar Red Crescent
- Advisory Board Member - Qatar Financial Centre Authority
- Member of the Board of Governors at Sidra Medicine

Sheikh Abdulla bin Ali bin Jabor Al Thani

DIRECTOR

Chairman - Board Risk Committee

Re-Elected to the Board in 2018 for a term of 3 years

Sheikh Abdullah has served on the Board of Directors of United Arab Bank since February 2008 and holds a BA in Social Science from Qatar University.

External Board Appointments:

- Chairman – The Commercial Bank (P.S.Q.C.)
- Deputy Chairman – National Bank of Oman

External Board Appointments:

- Owner – Vista Trading Company
- Partner – Integrated Intelligence Services
- Owner – Abdulla bin Ali & Partners for Real Estate and
- Commerce
- Owner – Shaza Hotel, Doha

H.E. Sheikh Mohammed bin Faisal Al Qassimi

DIRECTOR

Chairman – Board Credit Committee
Chairman – Board Governance and Remuneration Committee

Re-Elected to the Board in 2018 for a term of 3 years

H.E. Sheikh Mohammed bin Faisal Al Qassimi is the founder and chairman of MANAFA LLC, which he established in 2003. MANAFA LLC is a holdings company and an investment house with a significant presence in the Middle East. Since its inception, the group has made a rapid expansion in the markets where it operates.

Sheikh Mohammed bin Faisal bin Sultan Al Qassimi is a graduate from the Webster University in Business Administration and Accounting and a member of the CMA and the Society of Technical Analysts of the United Kingdom.

Sheikh Mohammed also holds key directorship and senior positions at various business groups and associations including:

- Faisal Holding LLC & a number of its Board Committees.
- Grand Stores LLC.
- Italian Chamber of Commerce in the UAE & the GCC.
- Member of Certified Management Accountant - CMA.
- Member of Society of Technical Analysts of the United Kingdom.

Mr. Ahmed Mohamad Bakheet Khalfan

DIRECTOR

Member – Board Credit Committee
Member – Board Governance and Remuneration Committee
Member – Board Risk Committee

Re-Elected to the Board in 2018 for a term of 3 years

Mr. Khalfan previously served as the Deputy General Manager of Emirates Industrial Bank and was Chairman of the Board of Directors of Emirates Modern Poultry Company and Vice Chairman of Emirates Rawabi. He also served as Board Member for various companies in the UAE including ALICO, Gulf Glass, and Takaful Re.

Mr. Khalfan graduated with a Bachelor of Science in Economics with honor from the North Eastern University, Boston.

Mr. Rashed Darwish Al Ketbi

DIRECTOR

Member - Board Audit Committee

Elected to the Board in 2018 for a term of 3 years

Resigned 20 July 2020

Mr. Al Ketbi is a UAE businessman; he has been an active player in the various sectors of the UAE economy. Mr. Al Ketbi is the visionary Chairman of (RDK) which has become an influential, diversified and prominent player within the UAE business community. Guided by his expertise and in-depth market knowledge as a prominent investor both within the country and abroad; RDK operates significant interests in the sectors of real estate development, tourism and hospitality, construction, transport and consultancy amongst others.

Mr. Al Ketbi holds a Bachelor's Degree in Commerce from Indiana University (1984) and an MBA in Business Administration from the Saint Louis University of Management (1986).

He holds directorships in various organizations and is a majority shareholder and chairman in several companies listed below:

- Chairman - RDK operates significant interests in the sectors of real estate development, tourism and hospitality, construction, transport and consultancy amongst others.
- Director – Darwish bin Ahmed & Sons Co L.L.C is a well-diversified group and one of UAE's major business houses with areas of operation in construction, automotive & equipment, HVAC Fire & Security, international operations, and real estate.
- Director – Al Wifaq Finance Co, is a subsidiary of Union National Bank Group.
- Chairman – Gulf Precast is a UAE leader in Precast Manufacturing.
- Vice Chairman & Managing Director – Al Wathba National Insurance Co PJSC.
- Vice Chairman – Foodco Holding.
- Chairman – Shanghai & Arabian Electromechanical & Shanghai Mitsubishi.
- Chairman/Owner – Renaissance Downtown Hotel, Dubai
- Chairman – Elevator Engineering Enterprises.
- Chairman – Number 1 Tower Suites.

Mr. Fahad Badar

DIRECTOR

Member – Board Credit Committee
Member – Board Risk Committee

Re-Elected to the Board in 2018 for a term of 3 years

Mr. Fahad Badar is a member of the Bank's Board of Directors and recently joined in July 2016.

Mr. Badar's career at The Commercial Bank (P.S.Q.C.) spans over 19 years. Prior to his current role as Executive General Manager, International Banking, Mr. Badar held a number of key roles in the International Banking, the Government and Public Sector Relations and the Wholesale Banking Divisions.

Mr. Badar holds an MBA from Durham University, United Kingdom and a Bachelors of Arts degree in Banking & Finance from the University of Wales.

Other External Appointments:

- Executive General Manager, International Banking – The Commercial Bank (P.S.Q.C.)
- Board Member – National Bank of Oman (NBO), Oman.

Mr. Joseph Abraham

DIRECTOR

Member – Board Governance and Remuneration Committee
Member – Board Audit Committee
Member – Board Credit Committee

Re-Elected to the Board in 2018 for a term of 3 years

Mr. Abraham has extensive banking experience across both developed and emerging markets. Before joining Commercial Bank in June 2016, he was CEO of ANZ Indonesia (Australia and New Zealand Banking Group) based in Jakarta, a position he served in from 2008 to 2016.

Mr. Abraham has an MBA from the Graduate School of Business, Stanford University, California and has worked in Indonesia, Singapore, Hong Kong, Ghana, UK and India in various country and regional banking roles with a successful track record covering general management, corporate banking, strategy, product management as well as acquisitions and integrations.

Other External Appointments:

- Group Chief Executive Officer of The Commercial Bank (P.S.Q.C)
- Vice Chairman of the Board of Alternatif Bank, Turkey.
- Director, National Bank of Oman.

Ms. Najla Al Midfaa

DIRECTOR

Chairperson - Board Audit Committee

Re-Elected to the Board in 2018 for a term of 3 years

Ms. Najla Ahmed Al-Midfa is Chief Executive Officer of the Sharjah Entrepreneurship Center (Sheraa), a government-supported entity with a mandate to build the entrepreneurial ecosystem in Sharjah, by supporting entrepreneurs as they build and grow innovative startups that contribute positively to socio-economic growth. Najla is also the founder of Khayarat, a platform that empowers young, high-potential Emiratis to make informed career choices, and enables them to succeed in the private sector.

Najla has an MBA from Stanford University, and is a fellow of the Aspen Institute's Middle East Leadership Initiative. In 2019, she was selected to be an Eisenhower Global Fellow.

Najla holds other key Senior advisory and board member positions at leading institutions such as:

- Board member of the United Arab Bank (part of the Board Audit Committee).
- Vice Chairman of Young Arab Leaders.
- Board member of Endeavor UAE.

Shari’ah Committee Report

Islamic Banking - United Arab Bank Internal Shari’ah Supervision Committee

In The Name of Allah, The Most Beneficent, The Most Merciful.

To the Shareholders of United Arab Bank,
peace and blessings upon all of you

Pursuant to the requirements stipulated in the relevant laws, regulations and standards (“Regulatory Requirements”), the Internal Shari’ah Supervision Committee of UAB (“ISSC”) presents to you the ISSC’s Annual Report regarding Shari’ah compliant businesses and operations of the UAB) for the financial year ending on 31 December 2021:

1. Responsibility of ISSC

In accordance with the Regulatory Requirements and the ISSC’s charter, the ISSC’s responsibility is stipulated as to:

a. Undertake Shari’ah supervision of all businesses, activities, products, services, contracts, documents and business charters of the Institution; and the Institution’s policies, accounting standards, operations and activities in general, memorandum of association, charter, financial statements, allocation of expenditures and costs, and distribution of profits between holders of investment accounts and shareholders (“Institution’s Activities”) and issue Shari’ah resolutions in this regard, and

b. To determine Shari’ah parameters necessary for the Institution’s Activities, and the Institution compliance with Islamic Shari’ah within the framework of the rules, principles, and standards set by the Higher Shari’ah Authority (“HSA”) to ascertain compliance of the Institution with Islamic Shari’ah.

2. Shari’ah Standards

In accordance with the HSA’s resolution (No. 18/3/2018), and with effect from 01/09/2018, the ISSC has abided by the Shari’ah standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) as minimum Shari’ah requirements, in all fatwas, approvals, endorsements and recommendations, relating to the Institution’s Activities without exception.

3. Works Undertaken by the ISSC During the Financial Year

The ISSC undertook Shari’ah supervision of the Institution’s Activities through review of those Activities, and monitoring through division or internal section of internal Shari’ah control, internal Shari’ah audit and (if applicable) external Shari’ah audit, in accordance with the ISSC’s authorities and responsibilities, and pursuant to the Regulatory Requirements in this regard. Works of the ISSC included the following:

a. Convening Four meetings during the year.

b. Providing fatwas, opinions and resolutions on matters presented to the ISSC.

c. Monitoring compliance of policies, procedures, accounting standards, product structures, contracts, documentation, business charters, and other documentation submitted by the Institution to the ISSC for approval.

d. Supervision Islamic Banking Department and external Shari’ah Audit, of the Institution’s Activities including executed transactions, adopted procedures on the basis of samples selected from executed transactions, and reviewing reports submitted in this regard.

e. Providing direction to relevant parties of the Institution to rectify (where possible) findings cited in the reports submitted by division of section of the internal Shari'ah control, internal Shari'ah audit, and/or external Shari'ah audit.

f. Approving remedial rectification and preventive measures related to identified errors to prevent their reoccurrence in the future.

g. Communicating with the Board and its subcommittees, and the senior management of the Institution (as needed) concerning compliance of the Institution with Islamic Shari'ah.

The ISSC sought to obtain all information and interpretations deemed necessary in order to reach a reasonable degree of certainty that the Institution is compliant with Islamic Shari'ah.
ISSC approved Minhaj Advisory to carry out the external Shari`ah Audit and provide the annual Shari`ah Audit report for the FY 2020.

4. Independence of ISSC

The ISSC acknowledges that it has carried out all of its duties independently and with the support and cooperation of the senior management and the Board of the Institution. The ISSC received the required assistance to access all documents and data, and to discuss all amendments and Shari'ah requirements.

5. The ISSC's Opinion on the Shari'ah Compliance Status of the Institution

Premised on information and explanations that were provided to us with the aim of ascertaining compliance with Islamic Shari'ah, the ISSC has concluded with a reasonable level of confidence, that most of the Institution's Islamic Activities are in compliance with Islamic Shari'ah except for the incidents of non-compliance observed, as highlighted in the external Sharia's Audit annual report requesting UAB to ensure that such incidents are not to be repeated in future. The ISSC formed its opinion, based on the external external Sharia's Audit annual report:

1. The bank was executing and using the approved forms and agreements in most of its transactions except some transactions as mentioned in the annual Shari`ah audit report.

2. Most of operational activities are in line with ISSC approval; except some of operational activities that were not as per the external Sharia Audit report.

3. All of the Bank`s Islamic Investments are approved by ISSC.

4. Mudarabah profit distribution was approved by ISSC.

5. No Zakat obligations on the Islamic Banking Department since their Liabilities are exceeding their assets.

We ask God, the Most High, the Almighty, to achieve righteousness for all.

Dr. Muhammad Ali al-Qurri	**Dr. Ahmed bin Abdulaziz Al Haddad**	**Dr. Aziz bin Farhan Al-Anzi**
Head of the Fatwa Body	Executive Member of the Fatwa Authority	Member of the Fatwa Committee

Corporate Governance

Sound Corporate Governance plays a fundamental role in the culture and business practices of UAB. The Bank's Corporate Governance framework relates to the way the business and activities of the Bank are directed and managed taking into account all stakeholders and the role of the Bank in the community.

UAB's Corporate Governance Framework

The Governance framework ensures adequate Board oversight over the risks inherent to our business. It focuses on the separation of the Board of Directors, the Executive Management's duties and responsibilities, the effectiveness of the Board and Management Committees, role of the external and internal auditors and the transparency accuracy and timely disclosure of information. In addition it aids cooperation with supervisory and regulatory authorities to ensure full compliance with applicable regulations and best practices.

UAB complies with each of the Central Bank, Securities and Commodities Authority and Abu Dhabi Securities Exchange regulatory requirements continuously looking to adopt industry best practices.

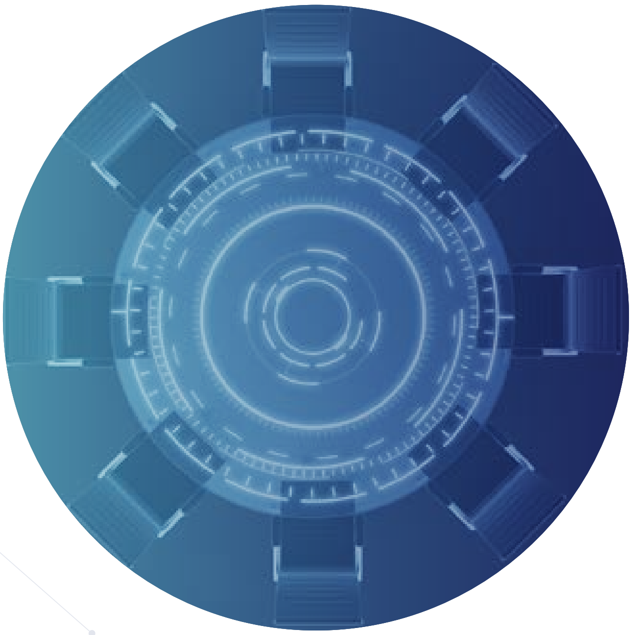
The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of United Arab Emirates laws and are available on the Investor Relations section on our website (www.uab.ae).

Transparency and Disclosure

As part of our efforts to continuously enhance disclosures and transparency, the delivery of accurate and timely information to our stakeholders represents a key priority of the Bank. Information is distributed through a number of channels including media, press releases and other various avenues.

In addition, a dedicated Investor Relations section is available on the Bank's website (www.uab.ae) through which financial and non-financial reports are cascaded.

Financial reports include published annual reports and financial results in both English and Arabic. Other important documents to shareholders such as the Memorandum and Articles of Association, shareholder structure, share price performance and analysts' reports are also available on the website.



Board of Directors

Role of the Board of Directors

The Board of Directors is empowered, under the Bank's Articles of Association, with the widest powers necessary to carry out the activities and functions required to fulfill the objectives of the Bank.

The Board responsibilities include establishing the Bank's strategy and ensuring that the Bank manages risk effectively through approving and monitoring the Bank's risk appetite. Adopting the Bank's Corporate Governance framework falls within the responsibilities of the Board to help ensure the implementation of solid internal controls and disclosures, the establishment of adequate policies and procedures necessary for the Bank's sound operations and compliance with applicable regulatory and statutory requirements at all times in addition , the Board has agreed on the Terms of Reference of the Board of Directors and all Board Committees, which set out their respective process, duties and responsibilities.

Role of the Chairman

The Chairman is elected by the Board in accordance with the Bank's Articles of Association. The position of Chairman of the Board and Bank's Chief Executive Officer is not held by the same individual.

The Chairman provides leadership for all aspects of the Board's activities and ensures that the Board meets its commitments to comply with applicable laws and regulations and that all resolutions adopted by the Board are effectively implemented.

The Chairman's responsibilities include:

- Providing leadership to the Board, setting its agenda, chairing its meetings and ensuring the effective implementation of Board's decisions;
- Ensuring the Board has within its membership the relevant knowledge of the banking industry as well as with financial and accounting expertise;
- Facilitating the effective contribution of Directors and the building of constructive relations between Directors;
- Promoting the highest standards of Corporate Governance and ensuring the Board discharges its duties and complies with relevant laws and regulatory requirements;
- Ensuring effective communications with shareholders;
- Arranging regular evaluations of the performance of the Board; and
- Building an effective Board and planning succession to all Board appointments.

Directors Obligations and Duties

Board Members commit to the following obligations in carrying out their duties as Directors of the Board, in accordance with the highest Corporate Governance standards:

- Having the necessary skills, qualifications and knowledge of the Bank's affairs and business;
- Acting honestly and in good faith with a view to protecting the best commercial interests of the Bank;
- Observing confidentiality, conflict of interest and transparency requirements when assuming their responsibilities as Directors;
- Acting in accordance with the obligations stipulated under the Articles of Association and all applicable laws and regulations;
- Not being convicted of any crime or felony or a crime involving moral turpitude;
- Disclosing any direct or indirect interests that they may have in connection with the Bank and which could conflict with the proper performance of their duties; and
- Attending regularly and participating effectively in Board meetings and general meetings of the shareholders.

Board Composition and Nomination

The Board is composed of 9 non-executive board members. The members were elected at the Annual General Assembly in April 2018. Members are eligible for re-election.

4 members represent The Commercial Bank, being the major shareholder,1 member represent the founders of the Bank with the remaining representing the private sector and minority shareholders.

The Board collectively possesses professional knowledge, business expertise, industry knowledge and financial awareness to carry out its oversight responsibilities.

All Board members are in regular attendance of the meetings.

Board Activities in 2020

The Board of Directors met 6 times in 2020 and received information in between meetings on regular basis from the Board and Management Committees in relation to the Bank's business developments.

2020 Board Meetings Calendar:

12th February 2020	Board of Directors meeting to approve Q4 2019 financial results conducted and to agree on General Assembly agenda on 04th April 2020 , in addition to other items on the agenda.
22th April 2020	Board meeting to discuss and approve other items on the agenda.
27th July 2020	Board meeting to approve Q1 & Q2 2020 financial results in addition to other items on the agenda.
11th October 2020	Board of Directors meeting to discuss and approve other items on the agenda.
10th November 2020	Board meeting to approve Q3 2020 financial results in addition to other items on the agenda.
13th December 2020	Board of Directors meeting to discuss and approve other items on the agenda, along with Board Training.

BOARD MEMBER	BOD	GRC	BAC	BCC	BRC
Sheikh Faisal Bin Sultan Bin Salem Al Qassimi	C				
Mr. Omar Hussain Alfardan	VC	C			
Sheikh Abdullah Bin Ali Bin Jabor Al Thani	M				C
Sheikh Mohammed Bin Faisal Al Qassimi	M	M		C	
Mr. Ahmed Mohamad Bakheet Khalfan	M	M		M	M
Ms. Najla Al Midfa	M		C		
Mr. Fahad Badar	M			M	M
Mr. Mr. Rashed Darwish Al Ketbi (1)	M		M		
Mr. Joseph Abraham	M	M	M	M	
Number of Meetings in 2020	6	6	5	11	5

(1) Served on the Board until July 2020

C: Chairman
VC: Vice Chairman
M: Member
BOD: Board of Directors
GRC: Board Governance & Remuneration Committee
BAC: Board Audit Committee
BCC: Board Credit Committee
BRC: Board Risk Committee

Board Committees

The Board of Directors established Board Committees to assist the Board in carrying out its duties and obligations and offer a more detailed review of important areas of business and control.

Board Governance & Remuneration Committee (GRC)

The GRC acts on behalf of the Board on all matters related to governance, remuneration, nomination and strategic plans, except for those powers and actions that are restricted to the Board on the basis of legal provisions or the Articles.

The GRC is responsible for supporting the Board in overseeing the remuneration scheme, in order to ensure that the subject remuneration is appropriate and consistent with the Bank's culture, long-term business and risk appetite, performance and control environment as well as with any legal or regulatory requirements. GRC shall provide recommendations to the Board for new Board and Senior Management members. GRC will also provide support and directions to the Board in terms of strategic and budgetary initiatives, plans and decisions.

GRC meets at least Four times a year. The committee held Six meetings in 2020.

Board Audit Committee (BAC)

BAC is responsible for managing the financial reporting, compliance and internal audit reviews of the Bank and, in doing so, may exercise all the powers delegated by the Board, subject to any relevant laws and regulations.

The internal audit function has a direct reporting line to the BAC.

BAC meets at least Four times a year. In 2020 the committee held Five meetings in 2020.

Board Credit Committee (BCC)

The BCC provides leadership for the Bank within a framework of prudent and effective controls which enables robust credit control.

The BCC is responsible for evaluating and granting counterparty credit facilities and approving the Bank's investment activities within authorized limits and, in doing so, exercise all the powers delegated by the Board, subject to any relevant laws and regulations.

BCC meets on an ad hoc basis. The committee held Eleven meetings in 2020.

Board Risk Committee (BRC)

The BRC monitors and manages all aspects of enterprise risk management including, but not restricted to, credit risk; market risk; operational risk; legal risk; regulatory risk; liquidity risk; financial risk. Moreover, the BRC reviews and approves the policies on all risk issues and maintains oversight of all Bank risks through reports received from the General Management Risk Committee.

BRC meets at least Four times a year. The committee held Five meetings in 2020.

Performance Evaluation of Board and Board Committees

GRC reviews, on an annual basis, the performance of the Board against its Terms of Reference and reports accordingly to the Board of Directors.

Corporate Governance (Continued)

Management Committees

The Board approved the Terms of Reference of all Management Committees. The Bank has 6 Management Committees that report regularly to the Board, or the relevant Board committee, on their activities.

Management Committee (MANCOM)

The Executive Management Committee is responsible for recommending the Bank's strategy and monitoring its performance. It will exercise general control over UAB and manage the Bank's business to ensure compliance with regulatory and legal requirements, and internal policies.

MANCOM meets weekly.

Retail Banking Top Team (RBT)

Concerned with making key decisions on the day-to-day working of the Retail Banking team, under the leadership of the CEO.

RBT meets weekly.

Wholesale Banking Top Team (WBT)

The WBT is the top management team of Corporate and Institutional banking (to be re-defined as wholesale banking) making key decisions on the day-to-day working of the wholesale banking team, under the leadership of the CEO and Head of wholesale banking.

WBT meets weekly.

Client Experience Forum (CEF)

The purpose of the Terms of Reference of the Client Experience Forum is to provide an outline of the role performed by the Client Experience Forum (CEF) of United Arab Bank (UAB). The CEF will provide assistance to the Senior Management in fulfilling its responsibility to the shareholders, and others relating to the Bank's compliance with legal and regulatory requirements and the achievement of the Bank's desired customer experience levels.

CEF meets once a Month.

Operations and Technology Committee

Provide an outline for role performed by Information Technology and Operation Units regarding Banks's projects, IT related initiatives, plans, related Budgets and Expenditures and Service Operation status. The OTC will provide assistance to the Senior Management in fulfilling its responsibility to the shareholders, and provide timely updates about the respective related activities.

OTC meets up to 6 times a year.

Legal Meetings

The objective of this Terms of Reference is to provide an outline updates/status of the legal cases against the bank and the provisions required for the same.

Legal Meetings meets up quarterly.

Risk Committee (RC)

The General Management Risk Committee is the highest approving authority at the management level on all aspects of enterprise risk management including, but not restricted to: credit risk; market risk; operational risk; legal risk; regulatory risk; liquidity risk; financial risks; corporate governance; and audit matters of the Bank (and any subsidiaries and affiliates in which it has strategic investments).

The RC provides recommendations on all risks and investment policies and portfolio issues to the BRC, and to other Board Committees as appropriate.

RC meets monthly.

Corporate Governance (Continued)

Credit Committee (CC)

CC is the highest management level authority on all counterparty risk exposures, credit product programmes and underwriting exposures on syndications and securities transactions.

CC meets as and when required.

Asset and Liability Committee (ALCO)

ALICO is the decision-making body related to balance sheet structure, funding, pricing, hedging, investment, and setting limits related to the overall ALM function of the Bank; and the has the mandate for recommending for approval or itself approving various functions/ transactions mention under the responsibilities.

ALCO meets at least six times a year.

Special Assets Committee (SAC)

The Special Assets Committee is the highest management level authority on Corporate and SME provisions. The authority of the SAC is derived from the Board.

SAC meets on a monthly basis.

Performance Evaluation of Management Committees

The Corporate Governance reviews on an annual basis the performance of all Management Committees against their terms of reference and reports accordingly to the Board.

Shareholders Profile

Meeting of the Shareholders

UAB Shareholders meet at least once a year during the Annual General Assembly ("AGA"), the supreme governance body of the Bank. The Articles of Association provides the statutory framework for the calling and the conduct of the AGA.

The AGA is held during the first four months of the year, to:

- Consider and approve the Report of the Board of Directors on the Bank's activities and financial position for the year ended 31 December 2019.
- Consider and approve the Auditor's Report on the Bank's financial position for the year ended 31 December 2019.
- Consider and approve the Bank's Balance Sheet and Profit and Loss Account for the year ended 31 December 2019.
- Consider and approve the Board of Director's recommendation to not distribute dividends, whether in cash or bonus shares, for the year 2019.
- Consider and approve the Board of Director's recommendation to not distribute any remuneration to the Board of Directors for 2019.
- Discharge the members of the Board of Directors for the year ended 31 December 2019 or to dismiss them and file a liability lawsuit against them, as the case may be.
- Discharge the Bank's auditors for the year ended 31 December 2019 or dismiss them and file a liability lawsuit against them, as the case may be.
- Appoint the Bank's auditors for the year ending 31 December 2020 and determine their fees.
- Authorize the Bank's elected Board members to participate in business in competition with the Bank as per Article (152) of the Commercial Companies Law No. 2 of 2015.
- To approve the members of the Internal Sharia supervisory Board.
- Consider and approve the Annual Report of the Internal Sharia Supervisory Board

Shareholders may pass a special resolution on items other than those falling under the remit of the AGA, as stipulated under the Articles of Association of the Bank.

The AGA took place ones in 2020 on 13th April 2020.

Major Shareholders

List of major Shareholders who owned 5% and above of the share capital as at December 31, 2020:

Commercial Bank	40.00%
Sheikh Faisal bin Sultan Al Qassimi	11.13%
Al Majed Investment Company (WLL)	5.47%
Jumaa Al Majed Abdullah Muhairi	5.31%
Sheikh Sultan Saqer Sultan Salem Al Qassimi	5.20%

Shareholders by Nationality as at December 31, 2020:

UAE	55.22%
QATAR	43.86%
OTHER GCC	0.03%
OTHER ARABS	0.23%
OTHERS	0.66%

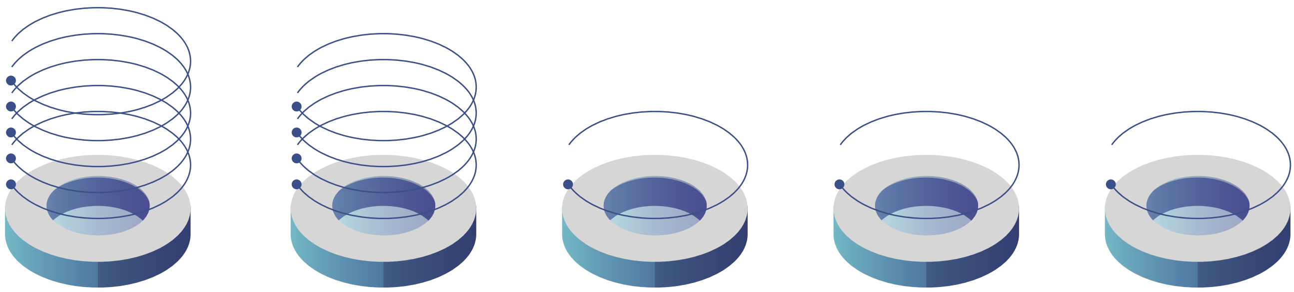
Shareholders by Investor Type as at December 31, 2020:

BANKS & FI	41.68%
INDIVIDUALS	37.55%
CORPORATIONS	20.76%

*Total might not equal 100% due to rounding

Shareholders Breakdown by Nationalities

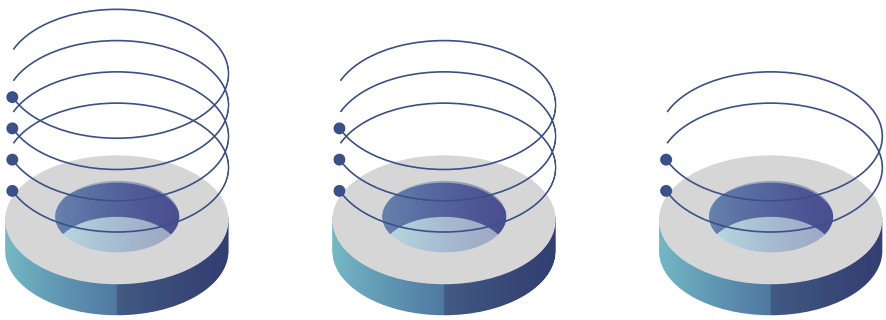
as at December 31, 2020



UAE	QATAR	OTHER GCC	OTHER ARABS	OTHERS
55.22%	**43.86%**	**0.03%**	**0.23%**	**0.66%**

Shareholders Breakdown by Economical Entities

as at December 31, 2020



BANKS & FI	INDIVIDUALS	CORPORATIONS
41.68%	**37.55%**	**20.76%**

Risk Management

UAB regards effective risk management as a key element to its sustainable performance; success, transformation strategy and value creation.

The role of risk management is to ensure that the Bank's risk-related decisions are consistent with the Bank's strategy, and are in line with its Risk Appetite framework, Best Practice and International standards set by regulators.

Effective risk management is fundamental to the success of the Bank and is recognized as a key element in UAB's overall approach to achieving its strategic goals.

The risk management framework is predicated on the Three Lines of Defense model. Within this model, Business units (first line) originate and manage risks, while the risk management and other control functions (second line) provide independent oversight and objective challenges to the first line of defense, as well as monitoring and controlling of risk. The Internal audit department (the third line) provides assurance that policies, procedures and controls are achieved by the other defenses.

The Bank has an established Risk governance framework with an active and engaged Board of Directors, supported by an experienced senior management team and risk management that is independent of the business lines. Decision-making is exercised through a number of Board and Executive Management Committees as per approved delegation of authority (DOA) matrix.

The Board of Directors approves key risk policies, limits and risk appetite statement, and ensures, either directly or through the committees, that decision-making is aligned with the Bank's strategic goals. Moreover, detailed reports are submitted to the Board periodically on the Bank's risk profile and emerging risk along with current state of the risk culture, utilisation against the established risk appetite, and limits, limit breaches (if any) and mitigation plans.

The Chief Risk Officer (CRO) is responsible for risk management under the oversight of the Board Risk Committee. The CRO heads the risk management function and also has direct access to the Board.

The risk management consists of specialized teams for managing credit, market/liquidity and operational risks. Risk management also includes the control and reporting functions of risk analytics, credit administration and monitoring.

The Bank continuously strengthens its risk management practices, policies and procedures and other tools to upgrade its overall capabilities, which are fundamental to achieving its business strategy.

UAB has a well-defined and independent Credit Administration Department ("CAD") that manages credit risk arising from its existing and future corporate credit exposures through obtaining Legal documentation & Limit management functions reporting to the Chief Credit Officer.

CAD functions are broadly managed by two units, namely Credit Documentation and Credit Control Units to attend to core responsibilities of borrowing documentation, Custody of borrowing & related security documents and limit management in adherence to UABs Credit policy. Highlighting exceptions and tracking them until resolution is also part of the daily activities.

Operational Risk

- Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, systems or from external events.

- The Bank makes use of six operational risk management processes, which consist of key risk indicators, change risk assessment, risk self-assessment, scenario analysis, issue & action management and risk event management.

- Furthermore, several types of risk mitigation measures are used and comprise control enhancement, model risk management, business continuity management and other mitigation measures (risk avoidance, risk reduction and risk transfer).

- To pro-actively address risks related to potential business disruptions, business impact analyses, crisis management teams and business continuity plans have been established for the Bank as well as for all branches.

Market Risk and Analytics

Market Risk arises from changes in market rates such as Interest Rates, Foreign Exchange Rates and/or credit spreads as well as their correlations and volatilities resulting in a loss to earnings and capital.

Market, Liquidity Risk and Analytics is part of independent Risk function and report directly to Chief risk officer (CRO).

The primary objectives of Market Risk Management is to ensure that risk exposures are within the approved risk appetite.

The bank measures and manages Market & liquidity Risk by using different risk parameters with combinations of various limits.

(a) Risk Management Group

The Risk Management is responsible for implementing and maintaining risk related procedures to ensure an independent control process. It works closely with the commercial organization to support their activities, while safe-guarding the risk profile of the Bank. It institutes prudent risk monitoring and control mechanisms (processes and systems) to ensure compliance of individual risk assets and portfolios to agreed terms and policy parameters.

It reviews and presents all credit submissions, risk policy and portfolio management reports to the BCC, BRC and Board.

Compliance

Banks are at the front-line of the economic disruption brought about by the COVID-19 pandemic. Central banks, large universal banks & small to medium-sized regional banks, are all facing unprecedented challenges and risks. They are also taking multiple measures to support their employees and customers, and help bolster the financial system.

Compliance function of a bank, must extend its focus beyond the bank, its policies and its employees. This function also bears the responsibility, for ensuring that the bank's clients act within the law and don't use the bank for illegal & illicit activities, such as money laundering, evading taxes or funding terrorism.

We, at the United Arab Bank are fully cognizant of the regulatory risk implications associated with non-adherence to the local & global laws & regulations, which may result in sanctions, fines/censures and losses associated with damage to the Bank's reputation as a result of its failure to comply with the applicable laws & regulations or prescribed practices.

The Compliance function at United Arab Bank provides assurance to the Executive Team and the Board that the expectations of the regulator, i.e. the Central Bank of the UAE, are fully met (along with relevant international regulations) and that the risk of the Bank being used to facilitate financial crime is effectively mitigated. Compliance, as an independent and second line of defense function, helps protect the bank by establishing a control environment that mitigates key risks. Specifically, Compliance provides regulatory guidance and operates a risk-based program designed to prevent, detect, and address violations of applicable laws, rules, regulations, policies, and procedures. One of the key responsibilities of the Compliance function is to provide consultative support and oversight to the Senior Management towards effectively mitigating and managing the compliance risks faced by the Bank.

Administrative independence of the Compliance function is ensured at all times, along with unrestricted access to all necessary data, information and systems across the Bank. Compliance also maintains an efficient reporting structure that enables prompt escalation and resolution of issues.

With significant continuing regulatory changes, the criticality of the Compliance function and the need for an effective Compliance framework within a financial institution is unprecedented. The vulnerability of financial institutions has increased manifold with extra-territorial enforcement of overseas regulatory agencies creating a more complex arena. Consequently, the need for senior management of banks to fully understand and effectively mitigate evolving Compliance risks is of paramount importance. United Arab Bank (UAB) remains fully cognizant as well as vigilant towards such local and international risks vis-à-vis our banking activities/services. Furthermore, the Bank fully acknowledges the importance of adherence to all CBUAE regulations without exception.

The Board and the Senior Management continuously promote and uphold a strong Compliance culture across the Bank while setting the desired “Tone from the Top”. As a result, we continue to undertake required endeavors to maintain an environment that is conducive towards employee empowerment and transparency in relation to effective risk management across the estate.

In the last two years, United Arab Bank (UAB), has undertaken, initiatives towards overall improvement in the Regulatory & Financial Crime function, which include (but not limited) to (i) updating it policies and procedures in line with the Central Bank of the UAE Notice 74/2019 “Procedures for Anti Money Laundering & Combatting the Financing of Terrorism & Illegal Organizations for Financial Institutions” and the Central Bank of the UAE Notice 79/2019 “Guidelines on Anti Money Laundering & Combatting the Financing of Terrorism & Illegal Organizations”, (ii) Revision/Enhancement of the Transaction Monitoring thresholds & scenarios, (iii) Enhanced Governance & Controls around the client on-boarding and Sanction Screening processes.

At an industry level, United Arab Bank continues to play an active role with regards to collaboration with the UAE Banks Federation (UBF) as a member bank and membership of important advisory committees of the UBF, working on important initiatives, proposals and priorities across the banking fraternity. Our CEO was ranked as one of the best 100 CEOs in the Middle East for the year 2020.

Corporate Governance (Continued)

Legal

The Legal team provides legal support to the Bank's departments and senior management, with its key objective is to give advice and guidance on various legal issues. The Legal team acts as the Bank's legal counsel and has the following priorities:

- Advise the Bank's stakeholders on effective solutions for current and anticipated material concerning legal and regulatory issues.
- Ensure major corporate actions, transactions and projects are managed in an efficient manner and are in line with applicable laws and regulations, in order to minimize the Bank's legal and regulatory risks.
- Draft, review and update the standard documentation, templates and relevant general terms and conditions of Bank's products.
- Initiate new legal cases and follow up on the cases filed by or against the bank before competent courts.
- Review all contracts and agreements in which the Bank is or will become party to.

Internal Audit

Internal Audit Department (IAD) in an independent function in the Bank and represents Third Line of Defense whose primary objective is to assist the Board of Directors and Executive Management to protect the assets, reputation and sustainability of the Bank.

To ensure independence, the Chief Audit Executive reports to the Chairman of the Board Audit Committee and is accountable for setting and reinforcing IAD's strategic direction, while ensuring that IAD has the necessary independence and authority, to exercise judgement, express opinions and make recommendations. Therefore IAD continues to be free from interference by any element in the Bank, including in matters of audit selection, scope, procedures, frequency, timing or report content.

Internal Audit activities are governed by Board approved Internal Audit Charter that sets out the mandate, approach, authority and responsibility of IAD within the Bank. The Charter is compiled by taking into consideration the Internal Audit Guidelines and Standards issued by the Institute of Internal Auditors ("IIA"), the Information Systems Audit and Control Association ("ISACA"), and the Central Bank of the United Arab Emirates ("CB-UAE").

The scope of IAD activities covers, but is not restricted to, inspections of evidence to provide independent assessments on the adequacy and effectiveness of risk management, control and governance processes within the Bank. In order to achieve this, a methodological risk assessment of the Bank and its activities (including outsourced activities) is conducted at least once every year and reviewed on a periodic basis to formulate an agile Audit Plan. Audits are executed in accordance with the Plan to form an opinion on the overall control environment. There is no aspect of the organisation which IAD is restricted from looking at as it delivers on its mandate.

Director's Report

On behalf of the Board of Directors of United Arab Bank (UAB), I am pleased to present to the shareholders of the Bank our Annual Report for the year ended 31st December 2020.

The results of FY 2020 were predominantly driven by higher impairment charges of AED808m due to the Bank's legacy issues, further exacerbated by the challenging operating environment driven by COVID-19 and the low interest rate environment as well as exposures to NMC and associated accounts. This has resulted in the Bank reporting a Net Loss of AED667m for the year ended 31 December 2020. Despite these macroeconomic headwinds, the Bank was able to maintain adequate levels of capital, with a capital adequacy ratio of 13.7% and CET1 ratio of 12.5%, both of which remain well above the regulatory requirements currently applicable alongside a robust provision coverage ratio of 99%.

The Board and Management Team remain fully committed to the Bank's focus on being fit for growth across its core businesses and revenues within Wholesale Banking, Retail Banking and Financial Markets whilst moving towards a more agile operating model incorporating digital solutions and capabilities and ultimately generating sustainable returns on a consistent basis for shareholders over the medium term.

The Board of Directors recommend nil appropriations for the year ended 31 December 2020 as follows:

	2019 AED'000	2020 AED'000
Opening balance in Accumulated Losses at 1 January	**(426,926)**	**(897,863)**
Profit / (Loss) for the year	(470,753)	(667,295)
Accumulated losses offset against reserves (note)	0	897,863
Transfers from revaluation reserve	38	38
Rights issue cost	(222)	0
Balance available for appropriation	**(897,863)**	**(667,257)**
Transfer to Special Reserve	0	0
Transfer to Statutory Reserve	0	0
Director's remuneration	0	0
Closing balance in Accumulated Losses at 31 December	**(897,863)**	**(667,257)**

Note: Following the receipt of the Bank's Annual General Assembly approval dated 13th April 2020 as well as regulatory consents received subsequently, the Bank's accumulated losses as at 31 December 2019 of AED 897,863 thousand have been fully set off against the Special reserve of AED 422,116 thousand and Statutory reserve of AED 475,747 thousand.

Subject to the General Assembly's approval, total Shareholders' funds will decrease to AED1,455m at 31 December 2020 compared to AED2,160m at the end of 2019. The Directors' propose no dividend distribution for the year 2020.

To the best of our knowledge, the financial information included in the report fairly presents in all material respects the financial condition, results of operation and cash flows of the Bank as of, and for, the periods presented in the accompanied financial statements for the year ended 31 December 2020.

On behalf of the Board of Directors whose unwavering commitment and guidance remain invaluable, my sincere appreciation goes to our valued customers and shareholders for their patronage, the top management and the employees for their commitment and dedication, and to the Central Bank of UAE for regulating and supporting the UAE banking sector.

In conclusion, we wish to express our appreciation to the President of the United Arab Emirates, His Highness Sheikh Khalifa Bin Zayed Al Nahyan for his leadership, vision and support. We also wish to thank His Highness Sheikh Mohammed Bin Rashid Al Maktoum, UAE Vice President, Prime Minister and Ruler of Dubai, His Highness Sheikh General Sheikh Mohammed Bin Zayed Al Nahyan, Crown Prince of Abu Dhabi and Deputy Supreme Commander of the UAE Armed Forces and His Highness Sheikh Dr. Sultan Bin Mohammed Al Qassimi, Ruler of Sharjah for their support and guidance.

Faisal bin Sultan bin Salem Al Qassimi
Chairman
14 February 2021

“Keeping Pace with Digital Development is our Goal”

PAGES

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of United Arab Bank PJSC (the "Bank"), which comprise the statement of financial position as at 31 December 2020, and the statement of income, statement of comprehensive income, statement of cash flows and statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards ("IESBA Code") together with ethical requirements that are relevant to our audit of the financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Independent Auditor's Report

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Key Audit Matter	How our audit addressed the key audit matter
(a) Expected credit losses ("ECL") for loans and advances and Islamic financing receivables *Refer note 7 of the financial statements.* Loss allowances on loans and advances and Islamic financing receivables represents management's best estimates, at the balance sheet date, of the expected credit losses under the expected credit loss models ("ECL Models") as stipulated by International Financial Reporting Standard No. 9: Financial Instruments ("IFRS 9"). Management first assesses whether the credit risk of Loans and advances and Islamic financing receivables to customers has increased significantly since their initial recognition, and then applies a three-stage impairment model to calculate the ECL.	We obtained an understanding of management's assessment of impairment of loans and advances and Islamic financing receivables, the Bank's internal rating model, the Bank's credit impairment provision policy and the ECL modelling methodology, including its - Review and approval of classification of loans and advances and Islamic financing receivables facilities. - Management's monitoring of: i) Staging and ECL for loans and advances and Islamic financing receivables. ii) Identification of loans displaying indicators of impairment (including days past due) under stage 3. iii) Macroeconomic variables and forecast. iv) Performance of ECL models. - The review and approval of management overlays and the governance process around such overlays. - The model validation function.

Independent Auditor's Report

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Key Audit Matter	How our audit addressed the key audit matter
(a) Expected credit losses ("ECL") for loans and advances and Islamic financing receivables (continued) *Refer note 7 of the financial statements. (continued)* Management has also applied significant level of judgement in areas noted above in determining the impact of COVID-19 on the allowances for credit losses by considering the following: 1. Forward looking information, including variables used in macroeconomic scenarios and their associated weightings, 2. Stress in specific sectors and industries, and 3. Impact of Government support measures. We considered ECL for Loans and advances and Islamic financing receivables as a key audit matter as the determination of ECL involves significant management judgement such as categorisation of Loans and advances and Islamic financing receivables into stages 1, 2 or 3; assumptions used in the ECL model such as expected future cash flows, macro- economic factors etc., and overlays to reflect current or future external factors. These judgments have a material impact on the financial statements of the Bank.	We performed the following audit procedures: - We tested the compliance of the Bank's ECL methodologies and assumptions with the requirements of IFRS 9. - For a sample of exposures, including those in industries severely impacted by COVID -19, we performed procedures to assess whether significant increases in credit risk (SICR) has been correctly identified. Our procedures also included evaluating the effect of COVID 19 related government support measures and deferral programs on the SICR assessment and staging of exposures. - We tested and assessed reasonableness of management's selection of forward looking macro-economic variables, scenarios and weights assigned to these scenarios, including an evaluation of changes made to these variables, scenarios and weights to capture the impact of COVID 19. - We assessed appropriateness of the modelling methodologies applied in the ECL model of the Bank. - For a sample of exposures, we examined key data inputs into the ECL models. - We re-performed key elements of the ECL calculations and evaluated the model performance results for accuracy. - We assessed appropriateness of disclosures in the financial statements against the requirements of IFRS.

Independent Auditor's Report

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Key Audit Matter	How our audit addressed the key audit matter
(b) User Access Management IT general control (ITGCs) support continuous operation of the automated controls within the business processes related to financial reporting. Effective ITGCs are needed to ensure that IT applications process business data as expected and that changes are made in an appropriate manner. During the year, we identified User Access management control deficiencies. These control deficiencies are still in the process of being fully remediated. The possibility of user gaining access beyond those necessary to perform their assigned duties may result in breaches in segregation of duties, including inappropriate manual intervention and unauthorised changes to systems or programs.	We reviewed the results of management's remediation procedures and risk assessment for applications within the scope of our audit and assessed the impact on the financial statements for the year ended 31 December 2020. We performed IT substantive procedures to determine whether the risk associated with the reported deficiencies materialised during the year. Where required, we tested business compensating controls and performed additional business substantive procedures.

Other Information

Management is responsible for the other information. Other information consists of the information included in the Bank's 2020 Annual Report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and in compliance with the applicable provisions of the Bank's Memorandum and Articles of Association and of the UAE Federal Law No. (2) of 2015, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Independent Auditor's Report

Report on the Audit of the Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Independent Auditor's Report

Report on Other Legal and Regulatory Requirements

Further, as required by UAE Federal Law No. (2) of 2015, we report that for the year ended 31 December 2020:

- the Bank has maintained proper books of account;
- we have obtained all the information and explanations we considered necessary for the purposes of our audit;
- the financial statements have been prepared and comply, in all material respects, with the applicable provisions of the Bank's Memorandum and Articles of Association and the UAE Federal Law No. (2) of 2015;
- the financial information included in the Directors' report is consistent with the books of account and records of the Bank;
- investments in shares and stocks during the year ended 31 December 2020 are disclosed in note 8 to the financial statements;
- note 24 reflects material related party transactions and the terms under which they were conducted;
- based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Bank has contravened, during the financial year ended 31 December 2020, any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Memorandum and Articles of Association which would materially affect its activities or its financial position as at 31 December 2020; and
- note 32 reflects the social contributions made during the year.

Further, as required by the Decretal Federal Law No. (14) of 2018, we report that we have obtained all the information and explanations we considered necessary for the purpose of our audit.

For Ernst & Young

T.S. Hari Gopal

Thodla Hari Gopal
Partner. Registration No. 689
22 March 2021
Sharjah, United Arab Emirates

Statement of Financial Position

	Notes	2020 AED'000	2019 AED'000
		As at 31 December	
Assets			
Cash and balances with UAE Central Bank	5	**1,406,322**	2,184,497
Due from other banks	6	**296,525**	739,337
Loans and advances and Islamic financing receivables	7	**9,013,639**	11,563,490
Investments and Islamic instruments	8	**3,281,726**	3,502,796
Property, equipment and capital work-in-progress	9	**327,790**	430,570
Other assets	10	**523,147**	704,231
Total assets		**14,849,149**	19,124,921
Liabilities and shareholders' equity			
Liabilities			
Due to banks	11	**1,233,470**	1,877,717
Customers' deposits and Islamic customer deposits	12	**11,246,835**	12,685,568
Medium term borrowings	13	**-**	1,487,363
Other liabilities	14	**914,301**	913,959
Total liabilities		**13,394,606**	16,964,607
Shareholders' equity			
Share capital	15	**2,062,550**	2,062,550
Special reserve	15	**-**	422,116
Statutory reserve	15	**28,924**	504,671
General reserve	15	**9,311**	9,311
Revaluation reserve	15	**517**	555
Cumulative changes in fair values		**20,498**	58,974
Accumulated losses		**(667,257)**	(897,863)
Net shareholders' equity		**1,454,543**	2,160,314
Total liabilities and shareholders' equity		**14,849,149**	19,124,921

The financial statements were approved by the Board of Directors on 21 March 2021 and signed on its behalf by:

Sheikh Faisal bin Sultan bin Salem Al Qassimi
Chairman

Ahmad Abu Eideh
Chief Executive Officer

The attached notes 1 to 33 form an integral part of these financial statements.
The independent auditor's report on these financial statements is set out on pages 36 to 41.

Statement of Income

	Notes	Year ended 31 December 2020 AED'000	2019 AED'000
Interest income and profit from Islamic instruments		**608,290**	888,580
Income from Islamic financing receivables		**33,639**	35,774
Total interest income and income from Islamic financing products	16	**641,929**	924,354
Interest expense		**(274,090)**	(366,750)
Distribution to depositors – Islamic products		**(74,430)**	(166,638)
Total interest expense and distribution to depositors	17	**(348,520)**	(533,388)
Net interest income and income from Islamic products net of distribution to depositors		**293,409**	390,966
Net fees and commission income	18	**42,309**	75,063
Foreign exchange income	19	**16,949**	23,742
Other operating income	20	**50,196**	54,993
Total operating income		**402,863**	544,764
Employee benefit expenses		**(150,093)**	(191,000)
Depreciation		**(27,943)**	(39,441)
Other operating expenses	21	**(83,999)**	(83,619)
Total operating expenses		**(262,035)**	(314,060)
Profit before impairment losses		**140,828**	230,704
Net impairment losses	22	**(808,123)**	(701,457)
Net loss for the year		**(667,295)**	(470,753)
Loss per share (basic and diluted in AED)	23	**(0.32)**	(0.23)

Statement of Comprehensive Income

	Year ended 31 December 2020 AED'000	2019 AED'000
Net loss for the year	**(667,295)**	(470,753)
Other comprehensive income		
Items that are or may be reclassified subsequently to the statement of income		
Fair value through other comprehensive income (FVOCI):		
Net change in fair value during the year	**83,275**	226,969
Change in allowance for expected credit losses	**(2,098)**	2,349
Reclassified to the income statement	**(119,653)**	(127,489)
Other comprehensive (loss) / income for the year	**(38,476)**	101,829
Total comprehensive (loss) / income for the year	**(705,771)**	(368,924)

The attached notes 1 to 33 form an integral part of these financial statements.
The independent auditor's report on these financial statements is set out on pages 36 to 41.

Statement of Cash Flows

	Notes	2020 AED'000	2019 AED'000
		Year ended 31 December	
Operating activities			
Net loss for the year		**(667,295)**	(470,753)
Adjustments for:			
Depreciation		**27,943**	39,441
Loss on write off of property, equipment and capital work-in-progress	9	**2,720**	5,724
Loss on branch closures		**-**	1,050
Gain from insurance and sale of property and equipment		**(90)**	(19)
Impairment on properties	9	**104,455**	141,308
Impairment on assets acquired in settlement of debt	10	**39,366**	108,245
Net credit impairment losses	22	**664,302**	451,904
Amortisation of premium paid on investments		**21,421**	25,233
Profit on sale of assets acquired in settlement of debt	10	**(2,100)**	-
Net fair value loss on disposal of investments		**(5,021)**	(27,634)
Unrealised loss on investments	8	**-**	164
Operating profit before changes in operating assets and liabilities		**185,701**	274,663
Changes in operating assets and liabilities:			
Loans and advances		**1,900,976**	758,976
Balances with UAE Central bank maturing after three months		**530,137**	62,394
Cash margin held by counterparty banks against borrowings and derivative transactions	6	**(91,041)**	(122,177)
Other assets	10	**108,896**	111,995
Due to banks maturing after three months		**(215,747)**	(368,658)
Customers' deposits	12	**(1,438,733)**	(1,353,391)
Other liabilities	14	**(120,359)**	(71,038)
Net cash from / (used in) operating activities		**859,830**	(707,236)
Investing activities			
Purchase of property, equipment and capital work-in-progress	9	**(27,816)**	(24,671)
Proceeds from insurance claims and disposal of property and equipment		**90**	19
Purchase of investments		**(146,944)**	(1,212,496)
Proceeds from redemption / sale of investments		**418,412**	1,770,278
Proceeds from sale of assets acquired in settlement of debt		**30,400**	-
Net cash generated from investing activities		**274,142**	533,130
Financing activities			
Proceeds of medium term borrowings	13	**-**	807,951
Repayment of medium term borrowings	13	**(1,487,363)**	(275,438)
Rights issue costs		**-**	(222)
Net cash generated (used in) / from financing activities		**(1,487,363)**	532,291
Net change in cash and cash equivalents		**(353,391)**	358,185
Cash and cash equivalents at 1 January		**1,100,098**	741,913
Cash and cash equivalents at 31 December		**746,707**	1,100,098

Cash and cash equivalents comprise the following statement of financial position amounts with original maturities of three months or less:

Cash and balances with the UAE Central Bank	**1,120,601**	1,368,639
Due from other banks	**75,338**	609,191
Due to banks	**(449,232)**	(877,732)
	746,707	1,100,098

The attached notes 1 to 33 form an integral part of these financial statements.
The independent auditor's report on these financial statements is set out on pages 36 to 41.

Statement of Changes in Equity

Year ended 31 December

	Share capital AED'000	Special reserve AED'000	Statutory reserve AED'000	General reserve AED'000	Revaluation reserve AED'000	Cumulative changes in fair values AED'000	Accumulated losses AED'000	Total AED'000
Balance at 1 January 2019	2,062,550	422,116	504,671	9,311	593	(42,855)	(426,926)	2,529,460
Loss for the year	-	-	-	-	-	-	(470,753)	(470,753)
Comprehensive income for the year	-	-	-	-	-	101,829	-	101,829
Total comprehensive loss for the year	-	-	-	-	-	101,829	(470,753)	(368,924)
Rights issue cost (note 15)	-	-	-	-	-	-	(222)	(222)
Depreciation transfer for land and buildings	-	-	-	-	(38)	-	38	-
At 31 December 2019	2,062,550	422,116	504,671	9,311	555	58,974	(897,863)	2,160,314
Loss for the year	-	-	-	-	-	-	(667,295)	(667,295)
Comprehensive loss for the year	-	-	-	-	-	(38,476)	-	(38,476)
Total comprehensive loss for the year	-	-	-	-	-	(38,476)	(667,295)	(705,771)
Accumulated losses offset against reserves (note 15)	-	(422,116)	(475,747)	-	-	-	897,863	-
Depreciation transfer for land and buildings	-	-	-	-	(38)	-	38	-
At 31 December 2020	2,062,550	-	28,924	9,311	517	20,498	(667,257)	1,454,543

The attached notes 1 to 33 form an integral part of these financial statements.
The independent auditor's report on these financial statements is set out on pages 36 to 41.

Notes to the Financial Statements

1. Incorporation and activities

United Arab Bank P.J.S.C. (the "Bank") was incorporated in 1975 as a Private Joint Stock Company in the Emirate of Sharjah. The legal form of the Bank was converted to a public company with limited liability in 1982 by a decree of His Highness The Ruler of Sharjah and has been registered as a Public Joint Stock Company under the UAE Commercial Companies Law No. (8) of 1984 (as amended). The Bank's registered office is located in the Emirate of Sharjah, United Arab Emirates. The address of the registered office is PO Box 25022, Sharjah, United Arab Emirates.

The Bank carries out the business of commercial banking through its offices and branches in the United Arab Emirates. The Bank also carries out Islamic banking operations through Islamic banking windows at selected branches.

2. Basis of preparation

Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), interpretations issued by International Financial Reporting Interpretations Committee (IFRIC) and applicable requirements of laws of the United Arab Emirates. Federal Decree-Law No. 26 of 2020 which amends certain provisions of Federal Law No. 2 of 2015 on Commercial Companies was issued on 27 September 2020 and the amendments came into effect on 2 January 2021. The Bank is in the process of reviewing the new provisions and will ensure compliance with the applicable amendments.

The COVID-19 pandemic has resulted in significant volatility in the financial markets worldwide. Numerous governments including UAE have announced measures to provide both financial and non-financial assistance to the affected entities. The pandemic affects the assumptions and estimation uncertainty associated with the measurement of assets and liabilities with details covered in note 4 of these financial statements.

3. Significant accounting policies

3.1 New and revised International Financial Reporting Standards

3.1.1 Standards, amendments and interpretations that are effective for the Bank's accounting period beginning on 1 January 2020

Title	Effective for annual period beginning on or after
Amendments to IAS 1 and IAS 8: Definition of Material	1 January 2020
Interest Rate Benchmark Reform: Phase 1 Amendments to IFRS 9, IAS 39 and IFRS 7	1 January 2020

i. Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. The amendments to the definition of material is not expected to have a significant impact on the Bank's financial statements.

3. Significant accounting policies (continued)

3.1 New and revised International Financial Reporting Standards (continued)

3.1.1 Standards, amendments and interpretations that are effective for the Bank's accounting period beginning on 1 January 2020 (continued)

ii. Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7

Interest Rate Benchmark Reform Amendments to IFRS 9 and IFRS 7 includes a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. As a result of interest rate benchmark reform, there may be uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative risk-free interest rate (an RFR). This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective.

The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative risk-free interest rate (an "RFR"). The effective date of the amendments is for annual periods beginning on or after 1 January 2020, with early application permitted. The requirements must be applied retrospectively. However, any hedge relationships that have previously been de-designated cannot be reinstated upon application, nor can any hedge relationships be designated with the benefit of hindsight. With phase one completed, the IASB is now shifting its focus to consider those issues that could affect financial reporting when an existing interest rate benchmark is replaced with an RFR. This is referred to as phase two of the IASB's project. Please refer to note 35 for detailed disclosure on IBOR reform.

The Bank has "limited" exposure to interbank offered rates (IBORs) on its financial instruments that will be replaced or reformed as part of this market-wide initiative. There is an uncertainty over the timing and the methods of transition. The Bank anticipates that IBOR reform will have "limited" operational, risk management and accounting impacts across all of its business lines.

3.1.2 Standards, amendments and interpretations issued but not yet effective for the Bank's accounting period beginning on 1 January 2021 and not early adopted

The Bank has not yet applied the Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (IBOR reform Phase 2) which has been issued but is not yet effective:

IBOR Reform Phase 2 (effective date: 1 January 2021)

IBOR Reform Phase 2 provides temporary reliefs that allow the Bank's hedging relationships to continue upon the replacement of an existing interest rate benchmark with an RFR. The reliefs require the Bank to amend hedge designations and hedge documentation. This includes redefining the hedged risk to reference an RFR, redefining the description of the hedging instrument and / or the hedged item to reference the RFR and amending the method for assessing hedge effectiveness. Updates to the hedging documentation must be made by the end of the reporting period in which a replacement takes place. For the retrospective assessment of hedge effectiveness, the Bank may elect on a hedge by hedge basis to reset the cumulative fair value change to zero. The Bank may designate an interest rate as a non-contractually specified, hedged risk component of changes in the fair value or cash flows of a hedged item, provided the interest rate risk component is separately identifiable.

3. Significant accounting policies (continued)

IBOR Reform Phase 2 (effective date: 1 January 2021) (continued)

The Bank has not early adopted this amendment and has concluded that the uncertainty arising from IBOR reform is not affecting its hedge relationships to the extent that the hedge relationships need to be discontinued. Please refer to note 35 for detailed disclosure on IBOR reform.

There are no other applicable new standards and amendments to published standards or IFRIC interpretations that have been issued but are not effective for the first time for the Bank's financial year beginning on 1 January 2020 that would be expected to have a material impact on the Bank's financial statements.

3.2 Basis of measurement

The Bank's financial statements are prepared under the historical cost convention except for the following:

- derivative financial instruments are measured at fair value; and
- financial assets at FVTPL and FVOCI are measured at fair value;

3.3 Functional and presentation currency

The Bank's financial statements have been presented in UAE Dirhams (AED), which is the presentation currency of the Bank and also the functional currency of the Bank and all values are rounded to the nearest thousand (AED'000) except when otherwise indicated.

3.4 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument for another entity. All assets and liabilities in the statement of financial position are financial instruments except property and equipment, capital work-in-progress, prepayments, provision for employee service benefits and shareholders' equity.

3.4.1 Classification

On initial recognition a financial asset is classified as measured at:
- Amortised cost;
- Fair value through comprehensive income (FVOCI); or
- Fair value through profit or loss (FVTPL)

The classification requirements for debt and equity instruments are described below.

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

The classification depends on the Bank's business model for managing financial assets and the contractual cash flow characteristics of the financial assets.

Based on these factors, the Bank classifies its debt instruments into one of three measurement categories:

- Amortised Cost - Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as explained in note 3.4.14. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

3. Significant accounting policies (continued)

3.4 Financial instruments (continued)

3.4.1 Classification (continued)

- Fair value through comprehensive income (FVOCI) – Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at fair value through comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instruments' amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss. Interest income from these financial assets is included in 'Interest Income' using the effective interest rate method.
- Fair value through profit or loss (FVTPL) – Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt instrument that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement in the period in which it arises.

The business model reflects how the Bank manages its assets in order to generate cash flows that is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, then the financial assets are classified as part of 'other' business model and measured at FVTPL.

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI' test). In making this assessment, the Bank considers whether contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangements, the related financial asset is classified and measured at fair value through profit or loss.

Debt instruments (continued)

The Bank reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the year.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

Investment in equity instruments that are not held for trading are measured at FVOCI. In such cases amounts presented in comprehensive income are not subsequently transferred to profit or loss upon de-recognition. Dividends on such investments are recognised in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment.

All other financial assets are classified and measured at FVTPL.

3. Significant accounting policies (continued)

3.4 Financial instruments (continued)

3.4.2 Recognition and initial measurement

The Bank initially recognises loans and advances and deposits on the date at which they are originated. All other financial assets and liabilities are initially recognised on the trade date which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

3.4.3 Amortised cost measurement principles

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal re-payments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts including initial transaction costs are included in the carrying amount of the related instrument.

3.4.4 Subsequent measurement

Subsequent to initial recognition, all financial instruments to be fair valued are measured at fair value, except any instrument that does not have a reliably measurable fair value, in which case financial instruments are measured as set out in the fair value measurement principles below.

All other assets are measured at amortised cost using the effective interest method less impairment losses, if any.

3.4.5 Gains and losses on subsequent measurement

(a) Debt Investments

Gains and losses arising from changes in the fair value of FVOCI investments are recognised directly in equity through comprehensive income, until the financial assets are derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the statement of income. Changes in the fair value of FVTPL investments are subsequently recognised in the profit or loss.

(b) Equity Investments

Gains and losses arising from changes in the fair value on equity investments are recognized in comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss. Dividends from such investments continue to be recognised in profit or loss as other income when the right to receive payments is established.

3.4.6 De-recognition

Financial assets are derecognised when the contractual rights to receive cash flows from the asset expire or where the Bank has transferred substantially all the risks and rewards of ownership.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are repurchase agreements.

A financial liability is derecognised when its contractual obligations are discharged, cancelled or expire.

3.4.7 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When applicable, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

3. Significant accounting policies (continued)

3.4 Financial instruments (continued)

3.4.7 Fair value measurement(continued)

When there is no quoted price in an active market, the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability, nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an offer price, the Bank measures its assets, liabilities, long and short positions at mid-market rate (which is computed as an average of the bid and offer price).

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk, are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

3.4.8 Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances arise when cash is advanced to a debtor with no intention of trading the receivable. Loans and advances are carried at amortised cost.

3.4.9 Investments

The ‘investment securities’ caption in the statement of financial position includes:

- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- Interest revenue using the effective interest method; and
- Expected credit losses (ECL) and reversals

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

3.4.10 Due from banks

Due from banks and financial institutions are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate less allowance for impairment, if any.

3. Significant accounting policies (continued)

3.4 Financial instruments (continued)

3.4.11 Cash and cash equivalents

Cash and cash equivalents as referred to in the statement of cash flows comprise cash on hand, non-restricted current accounts with the Central Bank, deposits with the Central Bank with an original maturity of three months or less, and amounts due from (to) banks on demand or with an original maturity of three months or less.

3.4.12 Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, with premium received included in 'Other liabilities'. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the statement of income in 'Provision for credit losses'. The premium received is recognised in the statement of income in 'Net fees and commission income' on a straight line basis over the life of the guarantee.

3.4.13 Derivatives and hedges

The Bank enters into derivative instruments including forwards, futures, forward rate agreements, swaps and options in foreign exchange, interest rate and capital markets. In the normal course of business, the fair value of a derivative on initial recognition is the transaction price included in other income/expenses. Subsequent to their initial recognition, derivative financial instruments are stated at fair values where they are designated as part of a hedging relationship and classified as a hedging instrument. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the statement of financial position. Changes in the fair values of derivatives held for trading or to offset other trading positions are included in other operating income (expenses) in the statement of income.

As permitted by IFRS 9, the Bank has elected to continue to apply the hedge accounting requirements of IAS 39.

On initial designation of the hedge, the Bank formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Bank makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, as to whether the hedging instrument(s) is / are expected to be 'highly effective' in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent.

Changes in the fair value of derivatives that are designated, and qualify, as fair value hedges and that prove to be highly effective in relation to the hedged risk are included in other operating income / (expenses) along with the corresponding changes in the fair value of the hedged assets or liabilities which are attributable to the risk being hedged.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Upon such discontinuance, in the case of fair value hedges of interest-bearing financial instruments any adjustment to the carrying amount relating to the hedged risk is amortised in the statement of income over the remaining term to maturity.

Certain derivative transactions, while providing effective economic hedges under the Bank's asset and liability management and risk management positions, do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore accounted for as derivatives held for trading and the related fair value gains and losses reported in other operating income (expenses).

3. Significant accounting policies (continued)

3.4 Financial instruments (continued)

3.4.14 Impairment of financial assets

The Bank applies a three-stage approach to measuring expected credit losses (ECL) on financial instruments accounted for at amortised cost and FVOCI. Assets migrate through the following three stages based on the change in credit quality since initial recognition:

i) Stage 1: 12-months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

ii) Stage 2: Lifetime ECL – not credit impaired

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

iii) Stage 3: Lifetime ECL – credit impaired

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. This uses the same criteria as under IAS 139, the Bank's methodology for specific provisions remains unchanged. For financial assets that have become credit impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

The Bank measures loss allowances at an amount equal to 12-month Expected credit loss (ECL) for the following financial instruments which are considered to have low credit risk:
- balances with Central Bank and other banks
- debt investment securities; and
- other financial assets, mainly comprising of sundry receivables

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Measurement of ECL

The Bank assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from financial guarantee contracts. The Bank recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:
- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost and FVOCI: as a deduction from the gross carrying amount of the assets and adjustments to OCI respectively; and
- loan commitments and financial guarantee contracts: as a provision in other liabilities

3.5 Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

3. Significant accounting policies (continued)

3.6 Write-off

The Bank writes off its loans and advances, Islamic financing receivable balances or other financial asset (and any other related allowances for impairment losses) when the Bank's credit determines that such financial assets are uncollectible in whole or in part. This is determined after considering information such as the occurrence of significant changes in the borrower or issuer's financial position such that the borrower or issuer can no longer pay its obligation in full, or that proceeds from collateral will not be sufficient to pay back the entire exposure. Assets are written-off against provisions up to the extent of amount considered un-collectible.

However, the Bank retains its full legal claim on, and may continue with its recovery effort including litigation, on written-off accounts.

Subsequent recoveries of amounts previously written off are recognised in the statement of income.

3.7 Assets acquired in settlement of debts

In certain cases, the Bank may close out transactions by acquiring assets in settlement of debts. The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the loan (net of impairment losses) at the date of exchange. These assets are recorded in "Other assets". It is the Bank's policy to dispose of such repossessed properties in an orderly manner. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use. Assets acquired in settlement of debts are held as inventory and are valued at lower of cost and net realisable value.

3.8 Revenue recognition

For all financial instruments measured at amortised cost and debt financial instruments classified as FVOCI and Islamic financial instruments, interest income / profit or expense is recorded at the effective interest rate, which is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Fees earned for provision of services over a period of time are accrued over that period. These fees include commission income on letter of credits, guarantees and others, custody and other management advisory fees.

Foreign exchange income includes income from trading in foreign currencies as well as revaluation gains and losses.

Other fee income and expense are recognised when earned or incurred. Dividend income is recognised when the right to receive payment is established.

3.9 Collateral pending sale

Real estate and other collaterals may be acquired as the result of settlement of certain loans and advances and are recorded in "Other assets". The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the loan (net of impairment allowance) at the date of exchange. No depreciation is provided in respect of these assets. Any subsequent write-down of the acquired asset to fair value less costs to sell is recorded as an impairment loss and included in the statement of profit or loss. Any subsequent increase in the fair value less costs to sell, to the extent this does not exceed the cumulative impairment loss, is recognised in the statement of profit or loss. The Bank's collateral disposal policy is in line with the respective regulatory requirement of the regions in which the Bank operates.

3. Significant accounting policies (continued)

3.10 Property and equipment

Property and equipment are stated at cost excluding the costs of day to day servicing, less accumulated depreciation and any impairment in value. Freehold land is not depreciated as it is deemed to have an indefinite life.

Depreciation is calculated on a straight line basis over the estimated useful lives of property and equipment as follows:

Buildings	Over 25 years
Motor vehicles	Over 5 years
Furniture and equipment	Over 3 to 8 years
Fixtures and leasehold improvements	Over 12 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other operating income' in the statement of income in the year the asset is derecognised.

3.11 Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event and the costs to settle the obligation are both probable and can be reliably measured. The expense relating to any provision is presented in the statement of income net of any reimbursement.

3.12 Employees' end of service benefits

Provision is made, in accordance with the provisions of IAS 19, for the end of service benefits due to employees in accordance with the UAE labor law for their period of service up to the financial position date and the provision arising disclosed as 'provision for employees' end of service benefits' in the statement of financial position. The Bank pays its contributions in respect of UAE citizens under the UAE pension and social security law and no further liability exists.

3.13 Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at the value dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into United Arab Emirates Dirhams at mid-market rates of exchange ruling at the balance sheet date. Any resultant gains and losses are taken to the statement of income.

3.14 Segment reporting

The Bank's segmental reporting is based on the following operating segments: Retail banking, Corporate banking and Others.

3.15 Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or Cash-Generating Unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using discount rates that reflect current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

3. Significant accounting policies (continued)

3.15 Impairment of non-financial assets (continued)

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of income.

3.16 Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the settlement date, i.e. the date that the asset is delivered to the counter party. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the timeframe generally established by regulation or convention in the market place.

3.17 Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and accordingly are not included in these financial statements.

3.18 Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Bank intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

3.19 Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank. Dividends for the year that are approved after the statement of financial position date are disclosed as an event after the statement of financial position date.

3.20 Acceptances

Acceptances arise when the Bank is under an obligation to make payments against documents drawn under letters of credit. After acceptance, the instrument becomes an unconditional liability of the Bank and is therefore recognised as a financial liability in the statement of financial position. However, every acceptance has a corresponding contractual right of reimbursement from the customer which is recognised as a financial asset.

3.21 Islamic financing and investment products

In addition to conventional banking products, the Bank offers its customers certain non-interest based banking products, which are approved by its Sharia'a Supervisory Board.

The various Islamic instruments described below are accounted for, disclosed and presented in accordance with the requirements of the underlying substance of the instruments and IFRS / IAS / IFRIC.

Murabaha:

Murabaha receivables are non-derivative financial assets with fixed payments that are not quoted in an active market. Murabaha is a sale transaction in which the seller (Bank) expressly mentions the actual cost of the asset to be sold to the customer and sells it to the customer on a cost-plus mark-up (profit) basis. It is in fact the sale of an asset for a profit, usually on deferred payment basis.

Income on Murabaha financing is recognised on a time apportioned basis over the period of the Murabaha contract, using the effective profit rate method.

Ijara:

Ijara involves a contract where the Bank buys and then leases an item to a customer for a specified rental over a specific period. The duration of lease, as well as the basis for rental, are set and agreed in advance. The Bank acquires the beneficial ownership of the property to lease the usufruct to the customer.

Income on Ijara financing is recognised on a time apportioned basis over the lease term, using the effective profit rate method.

3. Significant accounting policies (continued)

3.21 Islamic financing and investment products (continued)

Qard:

A Qard is the transfer of ownership in tangible wealth (money), from the customer to the Bank, and it is binding on the Bank to return equal wealth (money) to the customer on demand or as per the agreed terms, which means that the principal is to be repaid on demand. The Islamic current account offered to customers is based on the concept of Qard, a profit free amount received from the customer to the Bank, on which no profit or other form of return is payable.

Wakala:

Wakala involves an agreement, based on the concept of Wakala Bil Istithmar, where the Bank becomes the investment agent (Wakil) for its customers (Muwakkil) for deposit of their funds in the Wakala investment account to be invested in Shariah-compliant investment instruments. The funds are used to generate profit for the customer by investing in Islamic financing facilities to the Bank's other customers or investing in other Shariah-compliant investment instruments.

Income generated from the Wakala deposits are paid to the customers and the Bank recognizes a corresponding expense in the statement of income. Any losses as a result of the misconduct or negligence or violation of the terms and conditions of the Wakala are borne by the agent; otherwise, they are borne by the principal.

3.22 Leases

Right-of-use assets:

The Bank recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities:

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating a lease, if the lease term reflects the Bank exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Bank uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets:

The Bank applies the short-term lease recognition exemption to its short-term leases of ATM's (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option) together with the exemption of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

The Bank has the option, under some of its leases to lease the assets for an additional term. The Bank applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g. a change in business strategy).

4. Significant management judgements and estimates

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation and uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described below:

4.1 Classification of financial assets

Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

4.2 Impairment of financial assets

Assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL.

Significant increase in credit risk (SICR)

At each reporting date, the Bank assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the probability of default (PD) occurring over the expected life between the reporting date and the date of initial recognition.

In determining whether credit risk has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort (including both qualitative and quantitative information) and also uses its historical experience, internal credit risk grading system, external risk ratings and forward-looking information to assess deterioration in credit quality of a financial asset.

Credit risk grades

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

Corporate exposures	Retail exposures	All exposures
- Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. - Data from credit reference agencies, press articles, changes in external credit ratings - Quoted bond and credit default swap (CDS) prices for the borrower where available - Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities	- Internally collected data on customer behaviour - External data from credit reference agencies including industry-standard credit scores	- Payment record – this includes overdue status - Utilisation of the granted limit - Requests for and granting of forbearance - Existing and forecast changes in business, financial and economic conditions

4. Significant management judgements and estimates (continued)

4.2 Impairment of financial assets (continued)

The Bank uses Moody's credit risk grades as a primary input into the determination of the term structure of the PD for exposures. The table below provides a mapping of the Bank's credit risk grades.

<table>
<tr><th>S.No.</th><th>Moody's Rating Grades</th><th>Classification</th><th>Description</th></tr>
<tr><td>1</td><td>1</td><td rowspan="4">High</td><td>Strong</td></tr>
<tr><td>2</td><td>2+</td><td rowspan="3">Very Good</td></tr>
<tr><td>3</td><td>2</td></tr>
<tr><td>4</td><td>2-</td></tr>
<tr><td>5</td><td>3+</td><td rowspan="12">Standard</td><td rowspan="3">Good</td></tr>
<tr><td>6</td><td>3</td></tr>
<tr><td>7</td><td>3-</td></tr>
<tr><td>8</td><td>4+</td><td rowspan="3">Satisfactory</td></tr>
<tr><td>9</td><td>4</td></tr>
<tr><td>10</td><td>4-</td></tr>
<tr><td>11</td><td>5+</td><td rowspan="3">Acceptable</td></tr>
<tr><td>12</td><td>5</td></tr>
<tr><td>13</td><td>5-</td></tr>
<tr><td>14</td><td>6+</td><td rowspan="2">Marginal</td></tr>
<tr><td>15</td><td>6</td></tr>
<tr><td>16</td><td>6-</td><td>Watch list</td></tr>
<tr><td>17</td><td>7+</td><td rowspan="3">Watch list</td><td>Watch list</td></tr>
<tr><td>18</td><td>7</td><td rowspan="2">OLEM</td></tr>
<tr><td>19</td><td>7-</td></tr>
<tr><td>20</td><td>8</td><td rowspan="3">Default</td><td>Sub Standard</td></tr>
<tr><td>21</td><td>9</td><td>Doubtful</td></tr>
<tr><td>22</td><td>10</td><td>Loss</td></tr>
</table>

Generating the Term Structure of PD:

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by type of product and borrower as well as by credit risk grading. Information purchased from external credit reference agencies is also used.

The Bank uses statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: GDP growth, benchmark interest rates and unemployment. For exposures to specific industries and/or regions, the analysis may extend to relevant commodity and/or real estate prices.

Based on advice from the Market Risk Committee and consideration of a variety of external actual and forecast information, the Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 5 to 7 years.

4. Significant management judgements and estimates (continued)

4.2 Impairment of financial assets (continued)

Importance of staging criteria

Staging is an important input in determining the IFRS 9 ECL, as it dictates loans would be classified as stage 1 (attracting 12 months ECL) and in stage 2 (attracting life time ECL). Staging under IFRS 9 is based on the assessment of relative movement in the credit quality of the loans from the time of initial recognition. Loans classified in stage 3 have objective evidence of impairment and in respect of which specific provisions have been established.

Determining the stage for impairment

The Bank considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative or qualitative criteria have been met:

Quantitative criteria:

Corporate and Institutional Banking portfolio:
Significant increase in credit risk is measured by comparing the risk of default estimated at origination with the risk of default at the reporting date. In addition, the following parameters are also considered:
- 30 days past due
- Restructuring flag
- Downgrade by 3 notches on a 22 scale as per internal rating guidelines

Retail portfolio:
Thresholds have been set for each portfolio based on historical default rates. Facilities exceeding the threshold are considered for significant increase in credit risk. In addition, the following parameters are also considered:
- 30 days past due
- Restructuring flag
- Abandoned segment

Investment portfolio and Due from banks:
External rating agency credit grades are used to assess the significant increase in credit risk. These external published grades are continuously monitored and updated. The Bank's rating method comprises 20 rating levels for instruments not in default (1 to 19) and 3 default classes (20 to 22). The Bank's internal rating scale is mapped with external ratings. The master scale assigns each rating category a specified range of probabilities of default, which is stable over time.

Qualitative criteria:

The Bank also considers in its assessment of significant increase in credit risk various qualitative factors like significant adverse changes in business, actual and expected forbearance or restructuring and early signs of cash flows and liquidity problems.

Curing criteria:

The Bank continues to monitor financial instruments for a minimum probationary period of 12 months to confirm if the risk of default has decreased sufficiently before upgrading such exposures from Stage 2 to Stage 1.

The Bank is observing a probationary period of a minimum of 3 instalments (for repayments which are on a quarterly basis or shorter) and 12 months (in cases where instalments are on a longer frequency than quarterly) after restructuring, before upgrading from Stage 3 to Stage 2.

Exposures are not upgraded from Stage 3 to Stage 1 directly and are upgraded to Stage 2 initially before upgrading to Stage 1 based on the above-mentioned criteria.

4. Significant management judgements and estimates (continued)

4.2 Impairment of financial assets (continued)

The Bank ensures that the risk rating of the obligor correctly reflects its credit risk. UAB has in place a robust early warning signal mechanism to ensure credit risk deterioration is highlighted before the default takes place. This is via close monitoring of key early warning signals such as excesses, past dues, cheque / payment failures, external market feedback and credit ratings, covenant / condition breaches and weak financials. Where a client shows early signs of financial strain, it is placed on a watch list category and monitored at an internal watch list forum.

Credit-impaired financial assets

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Definition of default

The Bank considers a financial asset to be in default in line with the Circular No. 28/2010 and associated regulations issued by the Central Bank of the United Arab Emirates.

An instrument is considered to be no longer in default (i.e. to have cured) when it no longer meets the default criteria for a consecutive period of 12 months as determined by the regulatory guidelines.

Measurement of ECL

The ECL is measured on either a 12-month or lifetime basis depending on whether an SICR has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECL is the discounted product of the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD), defined as follows:

- PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates Two types of PDs are used for calculating ECL
  - 12 month PDs: This is the estimated probability of default occurring within the next 12 months (or over the remaining life of the financial instrument if less than 12 months). This is used to calculate 12 month ECL for Stage 1 exposures
  - Lifetime PDs: This is the estimated probability of a default occurring over the remaining life of the financial instrument. This is used to calculate lifetime ECL for Stage 2 and Stage 3 exposures.

- EAD represents the expected exposure at the time of default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. As described and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

- LGD is the magnitude of the likely loss if there is a default. LGD is expressed as a loss percentage of the exposure at the time of default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

4. Significant management judgements and estimates (continued)

4.2 Impairment of financial assets (continued)

Measurement of ECL **(continued)**

The measurement of ECL is based on a probability-weighted average credit loss. As a result, the measurement of the loss allowance is the same regardless of whether it is measured on an individual basis or a collective basis. In relation to the assessment of whether there has been a significant increase in credit risk it may be necessary to perform the assessment on a collective basis where the financial instruments are grouped based on product type risk characteristics.

The weighted average ECL is calculated considering base, upside and downside scenarios for recognition of ECL.

These parameters are generally derived from internally developed statistical models, other historical data and forward-looking information.

The Bank considers its historical loss experience and adjusts this for current observable data. In addition, the Bank uses reasonable and supportable forecasts of future economic conditions including experienced judgement to estimate the amount of an expected impairment loss. IFRS 9 introduces the use of macroeconomic factors which include, but is not limited to, real annual growth in gross domestic product and oil prices and requires an evaluation of both the current and forecast direction of the economic cycle. Incorporating forward looking information increases the level of judgement as to how changes in these macroeconomic factors will affect ECL. The methodology and assumptions including any forecasts of future economic conditions are reviewed regularly.

Upon implementation of IFRS 9 in 2019, the Bank had applied a 45% LGD on the Bank's unsecured portfolio following regulatory guidelines as well as independent reviews undertaken at the time. In 2020, the Bank has increased this LGD to 65% on the Bank's unsecured portfolio to reflect historical recovery data together with the Bank's forward looking business plans. The impact of this change in estimate has been disclosed in note 7 (on loans and advances) as well as note 26 (on commitments and contingencies).

The level of estimation uncertainty has increased since 31 December 2019 as a result of the economic disruption and consequential impact of the COVID-19 pandemic. This includes significant judgements relating to:

- The selection and weighting of macro-economic scenarios;
- The effect of government and other support measures put in place to mitigate the negative economic impact;
- The uncertainty over the duration and severity of the effect of the pandemic as well as the timing and duration of the recovery;
- Determination of the impact of the macro-economic scenarios on ECL and whether the required parameters can be modelled given the unavailability of historical information for a similar event; and
- Identification and assessment of significant increases in credit risk and impairment especially for customers who have received support under the various government and bank support schemes.

The Bank has incorporated the latest available macroeconomic inputs into the ECL model to reflect the change in the macroeconomic forecast with details covered in note 27 of these financial statements.

4. Significant management judgements and estimates (continued)

4.2 Impairment of financial assets (continued)

***Measurement of ECL* (continued)**

The most significant assumptions used for ECL estimate as at 31 December 2020 and 31 December 2019 are set out below. The scenarios of base case, upside and downside cases were used for all portfolios keeping in view the following principal macroeconomic variables:

Macroeconomic variables As at 31 December 2020	Scenario	Assigned probabilities	2021	2022	2023	2024
Average oil price per barrel (USD)	Base	40%	44.01	45.66	45.87	45.87
	Upside	20%	79.88	81.53	81.74	81.74
	Downside	40%	8.14	9.79	10.00	10.00
Non-oil Economic Composite Index ("ECI") (proxy of GDP)	Base	40%	2.20%	2.10%	2.20%	2.27%
	Upside	20%	5.80%	5.70%	5.80%	5.87%
	Downside	40%	-1.40%	-1.50%	-1.40%	-1.33%
Real estate prices of Dubai (index level price in AED)	Base	40%	10,918	10,941	10,989	11,042
	Upside	20%	13,260	13,283	13,331	13,383
	Downside	40%	8,576	8,600	8,647	8,700
ECI (proxy of GDP)	Base	40%	1.4%	2.2%	2.6%	2.6%
	Upside	20%	4.8%	5.6%	6.0%	6.0%
	Downside	40%	-2.1%	-1.2%	-0.9%	-0.8%
Inflation	Base	40%	1.5%	2.0%	2.0%	2.1%
	Upside	20%	3.2%	3.7%	3.7%	3.8%
	Downside	40%	-0.2%	0.3%	0.3%	0.4%

Macroeconomic variables As at 31 December 2019	Scenario	Assigned probabilities	2020	2021	2022	2023
Average oil price per barrel (USD)	Base	72%	64.5	64.2	64.1	64.3
	Upside	14%	73.0	72.6	72.5	72.7
	Downside	14%	35.5	40.8	54.5	60.2
Non-oil Economic Composite Index ("ECI") (proxy of GDP)	Base	72%	3.00%	3.60%	3.53%	3.47%
	Upside	14%	4.60%	5.51%	5.41%	5.31%
	Downside	14%	-4.10%	-2.16%	1.76%	2.95%
Real estate prices of Dubai (index level price in AED)	Base	72%	11,951	12,131	12,327	12,546
	Upside	14%	13,582	13,787	14,010	14,259
	Downside	14%	9,688	9,991	10,299	10,616
ECI (proxy of GDP)	Base	72%	2.60%	3.00%	2.97%	2.93%
	Upside	14%	3.93%	4.53%	4.48%	4.43%
	Downside	14%	-2.36%	-1.00%	1.72%	2.56%
Inflation	Base	72%	2.10%	2.00%	2.00%	2.00%
	Upside	14%	2.68%	2.56%	2.56%	2.56%
	Downside	14%	0.20%	0.50%	1.53%	1.85%

4. Significant management judgements and estimates (continued)

4.2 Impairment of financial assets (continued)

***Measurement of ECL* (continued)**

Sensitivity analysis

If the macroeconomic variables (listed above) were to change by the base, upside and downside scenarios, the ECL under stage 1 and 2 would change as follows:

Change in ECL due to change in macroeconomic variables	Base	Upside	Downside
Stage 1	28.3%	36.0%	42.2%
Stage 2	71.7%	64.0%	57.8%

There has been no significant sensitivity impact on stage 3 ECL.

4.3 Going concern

The management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future despite the accumulated losses amounting to AED 667,257,000 incurred till 31 December 2020. Management believes that it has adequate liquidity and funding in order to meet its cash flow requirements as and when these fall due. In addition, the Bank manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to its stakeholders. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

5. Cash and balances with UAE Central Bank

	2020 AED'000	2019 AED'000
Cash on hand	**64,398**	81,059
Balances with UAE Central Bank:		
Clearing accounts	**-**	337,580
Certificate of deposits	**-**	1,250,000
Overnight deposit facility	**850,000**	-
Reserve requirements	**491,924**	515,858
	1,406,322	2,184,497

The reserve requirements, which were previously kept with the UAE Central Bank in AED and USD in accordance with Circular No. 21/99, were computed as 14% of demand deposits plus 1% of time deposits. These reserve amounts were not available for use in the Bank's day to day operations and could not be withdrawn without the UAE Central Bank's approval. The level of reserve required used to be updated on a monthly basis in accordance with the UAE Central Bank directives.

On 6th April 2020 via Notice No. 1759/2020, the UAE Central Bank revised its computation of reserves to be 7% of demand deposits plus 1% of time deposits to be maintained in AED with reserves denominated in foreign currency to be converted into AED using the FX midpoint rate as published by the UAE Central Bank. Effective 28th October 2020 via Notice No. CBUAE/MMD/2020/4690, the UAE Central Bank implemented that this reserve would be updated on a fortnightly basis and also allowed licensed institutions to draw on the reserve balances held with the UAE Central Bank on any day upto 100% for daily settlement purposes or to deal with any swings on overnight money market rates, while ensuring that they meet the daily average requirements over the 14-day reserve maintenance period.

The reserve requirement as at 31 December 2020 amounted to AED 285,721 thousand (2019: AED 515,858 thousand). In accordance with the revised regulations effective from October 2020, the end of day balance in the clearing account maintained with UAE Central Bank is swept to the Reserve account on a daily basis.

Cash and balances with the UAE Central bank maturing within 3 months amount to AED 1,120,601,000 (2019: AED 1,368,639,000).

Notes to the Financial Statements

5. Cash and balances with UAE Central Bank (continued)

Grading of balances with UAE Central Bank along with stages is shown below:

Balances with UAE Central Bank	**Stage 1 AED'000**	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
High	**1,341,924**	-	-	**1,341,924**
As at 31 December 2020	**1,341,924**	-	-	**1,341,924**

Balances with UAE Central Bank	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
High	2,103,438	-	-	2,103,438
As at 31 December 2019	2,103,438	-	-	2,103,438

6. Due from other banks

	2020 AED'000	2019 AED'000
Demand deposits	**296,525**	245,362
Term deposits	**-**	493,975
	296,525	739,337

The Bank holds a stage 1 expected credit loss allowance of AED 112,000 (31 December 2019: AED 86,000) on its due from other banks.

Due from other banks includes AED 127,356,000 (2019: AED 105,858,000) placed with foreign banks outside the UAE. AED 221,187,000 (2019: AED 130,146,000) is held with other banks as margin for derivative transactions.

Gross amounts of due from other banks by geographical area	**2020 AED'000**	2019 AED'000
Within UAE	**169,170**	593,503
Within GCCs	**29,012**	14,212
Other countries	**98,343**	131,622
	296,525	739,337

An analysis of due from other banks based on external credit ratings is as follows:

	2020 AED'000	2019 AED'000
AA-	**30,347**	16,782
A+	**6,350**	10,062
A	**151,150**	123,399
A-	**50,233**	217,162
BBB+	**53,127**	346,074
BBB	**3,474**	24,356
BBB- and below	**1,844**	1,502
	296,525	739,337

6. Due from other banks (continued)

Grading of gross balances of due from other banks along with stages

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
High	**238,080**	**-**	**-**	**238,080**
Standard	**58,445**	**-**	**-**	**58,445**
As at 31 December 2020	**296,525**	**-**	**-**	**296,525**

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
High	367,405	-	-	367,405
Standard	371,932	-	-	371,932
As at 31 December 2019	739,337	-	-	739,337

7. Loans and advances and Islamic financing receivables

The composition of loans and advances and Islamic financing receivables portfolio is as follows:

	2020 AED'000	2019 AED'000
(a) By type:		
Overdrafts	**1,192,258**	1,360,879
Loans (medium and short term)*	**8,676,243**	10,648,270
Loans against trust receipts	**530,210**	587,392
Bills discounted	**152,875**	271,228
Other cash advances	**51,051**	48,663
Bills drawn under letters of credit	**66,546**	114,175
Gross amount of loans and advances and Islamic financing receivables	**10,669,183**	13,030,607
Less: Provision for impairment on loans and advances and Islamic financing receivables	**(1,655,544)**	(1,467,117)
Net loans and advances and Islamic financing receivables	**9,013,639**	11,563,490

* Includes retail loans of AED 2,372,456,000 (2019: AED 2,880,123,000)

	2020 AED'000	2019 AED'000
(b) By economic sector:		
Government and public sector	**300,000**	687,491
Trade	**1,452,605**	1,906,957
Personal loans (retail and business)	**4,257,569**	5,235,214
Manufacturing	**1,141,267**	1,193,940
Construction	**541,427**	586,126
Services	**1,441,332**	1,489,242
Financial institutions	**1,062,891**	1,434,078
Transport and communication	**466,994**	497,296
Others	**5,098**	263
Gross amount of loans and advances and Islamic financing receivables	**10,669,183**	13,030,607

7. Loans and advances and Islamic financing receivables (continued)

Loans and advances and Islamic financing receivables are stated net of provision for impairment.

Islamic financing gross receivables amount to AED 581,777,000 (2019: AED 748,331,000) recognized through the Bank's Shari'a - compliant Islamic window.

At 31 December 2020, the gross amount of loans and advances and Islamic financing receivables, individually determined to be impaired, before deducting any individually assessed impairment allowance amounted to AED 1,677,199,000 (2019: AED 1,483,820,000). The provision and collateral held on these impaired loans is disclosed in note 27 under credit risk.

Grading of gross balances of loans and advances and Islamic financing receivables along with stages

	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
High	**14,094**	**-**	**-**	**14,094**
Standard	**7,453,964**	**1,009,701**	**-**	**8,463,665**
Watch list	**-**	**514,225**	**-**	**514,225**
Default	**-**	**-**	**1,677,199**	**1,677,199**
Total gross carrying amount	**7,468,058**	**1,523,926**	**1,677,199**	**10,669,183**
Expected credit loss	**(87,398)**	**(294,841)**	**(1,273,305)**	**(1,655,544)**
As at 31 December 2020	**7,380,660**	**1,229,085**	**403,894**	**9,013,639**

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
High	23,424	-	-	23,424
Standard	9,490,574	1,515,732	-	11,006,306
Watch list	-	517,057	-	517,057
Default	-	-	1,483,820	1,483,820
Total gross carrying amount	9,513,998	2,032,789	1,483,820	13,030,607
Expected credit loss	(83,550)	(238,381)	(1,145,186)	(1,467,117)
As at 31 December 2019	9,430,448	1,794,408	338,634	11,563,490

Movement in the gross balances of loans and advances and Islamic financing receivables

	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
Gross carrying amount as at 31 December 2019	**9,513,998**	**2,032,789**	**1,483,820**	**13,030,607**
Net of new assets originated and assets repaid	**(1,667,863)**	**(323,992)**	**127,182**	**(1,864,673)**
Write-offs	**-**	**-**	**(496,751)**	**(496,751)**
Transferred from Stage 1	**(467,485)**	**467,485**	**-**	**-**
Transferred from Stage 2	**-**	**(653,632)**	**653,632**	**-**
Transferred from Stage 3	**89,408**	**1,276**	**(90,684)**	**-**
As at 31 December 2020	**7,468,058**	**1,523,926**	**1,677,199**	**10,669,183**

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Gross carrying amount as at 31 December 2018	10,314,469	2,304,697	1,283,648	13,902,814
Net of new assets originated and assets repaid	(390,494)	(458,618)	146,314	(702,798)
Write-offs	-	-	(169,409)	(169,409)
Transferred from Stage 1	(414,049)	414,049	-	-
Transferred from Stage 2	-	(232,816)	232,816	-
Transferred from Stage 3	4,072	5,477	(9,549)	-
As at 31 December 2019	9,513,998	2,032,789	1,483,820	13,030,607

7. Loans and advances and Islamic financing receivables (continued)

Movement in provision for impairment of loans and advances and Islamic financing receivables

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Balance as at 31 December 2019	**83,550**	**238,381**	**1,145,186**	**1,467,117**
Changes due to provisions recognized in the opening balance that have:				
Transferred to 12 month ECL	**1,676**	**(1,676)**	**-**	**-**
Transferred to lifetime ECL not credit impaired	**(49,656)**	**49,656**	**-**	**-**
Transferred to lifetime ECL credit-impaired	**-**	**(156,664)**	**156,664**	**-**
Transferred to lifetime ECL credit-impaired on commitments and contingent liabilities (note 26)	**-**	**-**	**2,588**	**2,588**
Charge to income statement (note 22)	**51,828**	**165,144**	**466,385**	**683,357**
Write-offs	**-**	**-**	**(497,518)**	**(497,518)**
As at 31 December 2020	**87,398**	**294,841**	**1,273,305**	**1,655,544**

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Balance as at 31 December 2018	60,036	348,631	735,046	1,143,713
Changes due to provisions recognized in the opening balance that have:				
Transferred to 12 month ECL	327	(327)	-	-
Transferred to lifetime ECL not credit impaired	(23,917)	23,917	-	-
Transferred to lifetime ECL credit-impaired	-	(108,543)	108,543	-
Transferred to lifetime ECL credit-impaired on commitments and contingent liabilities (note 26)	-	-	(16,984)	(16,984)
Charge to income statement (note 22)	29,599	(35,736)	365,690	359,553
Changes in estimate (note 4.2 and 22)	17,505	55,309	-	72,814
Write-offs	-	(44,870)	(47,109)	(91,979)
As at 31 December 2019	83,550	238,381	1,145,186	1,467,117

Sector wise analysis of impaired loans and advances and Islamic financing receivables in the default category and related provisions is as follows:

	2020		2019	
	Gross exposure AED'000	**Impairment provision AED'000**	Gross exposure AED'000	Specific provision AED'000
By economic sector				
Trade	**175,301**	**121,264**	347,834	303,728
Personal loans (retail and business)	**421,222**	**288,778**	184,497	94,409
Manufacturing	**372,108**	**282,701**	378,039	259,420
Construction	**24,995**	**18,262**	26,342	11,689
Services	**377,169**	**333,797**	300,456	286,126
Financial institutions	**88,129**	**46,846**	85,971	46,327
Transport and communication	**218,275**	**181,657**	160,681	143,487
Total	**1,677,199**	**1,273,305**	1,483,820	1,145,186

The fair value of collateral that the Bank holds relating to loans to corporate and retail customers individually determined to be impaired at 31 December 2020 amounts to AED 669,343,000 (2019: AED 675,920,000). The collateral consists of cash, securities, charges over real estate properties, vehicles, plant and machinery, inventory, trade receivables, and guarantees from parent companies for loans to their subsidiaries or other Bank companies. During the year, the Bank did not repossess any collaterals (2019: AED Nil).

8. Investments and Islamic instruments

	2020			2019		
	Quoted AED'000	Unquoted AED'000	Total AED'000	Quoted AED'000	Unquoted AED'000	Total AED'000
Debt:						
FVOCI						
Local	2,473,714	-	2,473,714	2,744,185	-	2,744,185
Overseas	807,377	-	807,377	739,500	-	739,500
Amortised Cost						
Local	-	-	-	18,383	-	18,383
Total debt securities	3,281,091	-	3,281,091	3,502,068	-	3,502,068
Equity:						
FVOCI						
Local	-	467	467	-	467	467
Overseas	92	76	168	285	76	361
Total equities	92	543	635	285	543	828
Total investments	3,281,183	543	3,281,726	3,502,353	543	3,502,896
Expected credit loss			-			(100)
Net investments			3,281,726			3,502,796

The Bank holds a stage 1 ECL allowance on its investment securities classified under FVOCI amounting to AED 19,758,000 as at 31 December 2020 (31 December 2019: AED 21,956,000).

Included in the above are investment securities amounting to AED 741,667,000 (2019: AED 455,955,000) secured under repurchase agreement with the lenders. The Banks holds an ECL allowance of AED 3,208,000 (2019: AED 4,706,000) on these investment securities secured under repurchase agreements.

During the year, the Bank has invested in unquoted shares of a company amounting to Nil (2019: AED 166,000) which have been categorised as level 3.

Grading of gross balances of investment securities (FVOCI and Amortised Cost) along with stages:

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
High	1,420,056	-	-	1,420,056
Standard	1,861,035	-	-	1,861,035
Total gross carrying amount	3,281,091	-	-	3,281,091
Expected credit loss	(19,758)	-	-	(19,758)
As at 31 December 2020	3,261,333	-	-	3,261,333

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
High	1,447,250	-	-	1,447,250
Standard	2,054,818	-	-	2,054,818
Total gross carrying amount	3,502,068	-	-	3,502,068
Expected credit loss	(21,956)	-	-	(21,956)
As at 31 December 2019	3,480,112	-	-	3,480,112

8. Investments and Islamic instruments (continued)

Movement in the provision for impairment of investment securities (FVOCI and Amortised Cost):

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Balance as at 31 December 2019	**21,956**	**-**	**-**	**21,956**
Charge to income statement (note 22)	**(2,198)**	**-**	**-**	**(2,198)**
As at 31 December 2020	**19,758**	**-**	**-**	**19,758**

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Balance as at 31 December 2018	20,929	-	-	20,929
Charge to income statement (note 22)	1,027	-	-	1,027
As at 31 December 2019	21,956	-	-	21,956

An analysis of the investment based on external credit ratings is as follows:

As at 31 December 2020	**Debt securities AED'000**	**Other investments AED'000**	**Total AED'000**
AA	**742,603**	**-**	**742,603**
AA-	**370,120**	**-**	**370,120**
A+	**38,442**	**-**	**38,442**
A	**237,844**	**-**	**237,844**
A-	**31,048**	**92**	**31,140**
BBB+	**91,763**	**-**	**91,763**
BBB	**36,725**	**-**	**36,725**
BBB- and below	**1,276,327**	**-**	**1,276,327**
Unrated	**456,219**	**543**	**456,762**
Total investments	**3,281,091**	**635**	**3,281,726**
Less: Provision for credit loss	**-**	**-**	**-**
Net investments	**3,281,091**	**635**	**3,281,726**

As at 31 December 2019	**Debt securities AED'000**	**Other investments AED'000**	**Total AED'000**
AA	788,369	-	788,369
A+	51,930	-	51,930
A	247,859	-	247,859
A-	359,092	-	359,092
BBB+	575,416	-	575,416
BBB- and below	866,046	-	866,046
Unrated	613,356	828	614,184
Total investments	3,502,068	828	3,502,896
Less: Provision for credit loss	(100)	-	(100)
Net investments	3,501,968	828	3,502,796

Notes to the Financial Statements

9. Property, equipment and capital work-in-progress

	Freehold land and buildings AED'000	Motor vehicles, leasehold improvements, and equipment furniture, fixtures and equipment AED'000	Capital work-in-progress AED'000	Total AED'000
Cost or valuation:				
At 1 January 2020	**432,362**	**271,244**	**110,251**	**813,857**
Additions	**-**	**816**	**27,000**	**27,816**
Transfers	**-**	**23,000**	**(23,000)**	**-**
Write-offs	**-**	**(1,049)**	**(1,868)**	**(2,917)**
Disposals	**-**	**(395)**	**-**	**(395)**
At 31 December 2020	**432,362**	**293,616**	**112,383**	**838,361**
Depreciation:				
At 1 January 2020	**23,390**	**218,689**	**-**	**241,979**
Charge for the year	**3,747**	**19,674**	**-**	**23,421**
Write-offs	**-**	**(197)**	**-**	**(197)**
Disposals	**-**	**(395)**	**-**	**(395)**
At 31 December 2020	**27,137**	**237,671**	**-**	**264,808**
Impairment on properties	**(169,234)**	**-**	**(76,529)**	**(245,763)**
Net Carrying Value:				
At 31 December 2020	**235,991**	**55,945**	**35,854**	**327,790**

	Freehold land and buildings AED'000	Motor vehicles, leasehold improvements, and equipment furniture, fixtures and equipment AED'000	Capital work-in-progress AED'000	Total AED'000
Cost or valuation:				
At 1 January 2019	432,360	265,865	96,688	794,913
Correction of opening balances	2	(7)	2	(3)
Restated at 1 January 2019	432,362	265,858	96,690	794,910
Additions	-	3,531	21,141	24,672
Transfers	-	1,856	(1,856)	-
Write-offs (note 21)	-	-	(5,724)	(5,724)
At 31 December 2019	432,362	271,244	110,251	813,858
Depreciation:				
Correction of opening balances	19,638	196,920	-	216,558
Restated at 1 January 2019	5	(8)	-	(3)
At 1 January 2019	19,643	196,912	-	216,555
Charge for the year	3,747	21,677	-	25,424
At 31 December 2019	23,390	218,589	-	241,979
Impairment on properties	(85,279)	-	(56,029)	(141,308)
Net Carrying Value:				
At 31 December 2019	323,693	52,655	54,222	430,570

The cost of freehold land included above is AED 338,368,000 (2019: AED 338,368,000).

Notes to the Financial Statements

9. Property, equipment and capital work-in-progress (continued)

During 2020, additions to capital work in progress relate to expenditure incurred in connection with the purchase of property and equipment amounting to AED 27,000,000 (2019: AED 21,141,000). Upon completion of associated projects, AED 23,000,000 (2019: AED 1,856,000) was transferred to ‘motor vehicles, leasehold improvements, furniture, fixtures and equipment’ whilst AED 1,868,000 was (2019: AED 5,724,000) was written-off.

During 2020, the Bank wrote-off computer software with a net carrying value of AED 852,000 (2019: AED Nil).

Included in Property, equipment and capital work-in-progress are plots of land with gross carrying values of AED 422,400,000 (2019: AED 422,100,000). Management has completed the assessment of the carrying values of these plots of land and has accordingly recognised an impairment of AED 104,455,000 (2019: AED 141,308,000).

Intangible assets relating to computer software are included within equipment with a net carrying value of AED 20,767,000 (2019: AED 13,648,000).

Description of the valuation techniques used and key inputs to valuation of properties is as follows:

	Valuation technique	Significant unobservable inputs
Plot 1	DCF method (refer below)	Sales rate per sq ft on gross floor area (GFA) amended to incorporate negotiation, size and time adjustment for transactions
Plot 2	Sales Comparison method (refer below)	Negotiation adjustment of 15% has been applied to the current asking price for similar land parcels

Depreciated Replacement Costs (“DRC”) method

The DRC method is based on the market value of the current use of the land in addition to the current gross replacement costs of improvements less allowances for physical deterioration and all relevant forms of obsolescence and optimization.

Sales comparison method

This method involves analysing sales and asking prices of similar plots of land and comparing these to the property owned.

10. Other assets

	2020 AED’000	2019 AED’000
Interest receivable	**83,577**	96,320
Positive fair value of derivatives (note 25)	**8,055**	25,163
Acceptances	**240,863**	314,303
Prepayments and other assets	**63,566**	65,471
Right-of-use assets (note 28)	**9,838**	18,059
Assets repossessed in settlement of debts (refer below)	**117,248**	184,915
	523,147	704,231

The Bank’s portfolio of assets repossessed in settlement of debts amounted to AED 254,160,000 (2019: AED 293,160,000). In 2020, the Bank recognised a gain on sale of AED 2,100,000 on 4 of its properties which had a net carrying value of AED 28,300,000 at the time of sale. The management completed an assessment of the carrying values of the remaining properties in 2020 and has accordingly recognised an impairment of AED 39,366,000 (2019: AED 108,245,000).

Notes to the Financial Statements

10. Other assets (continued)

Grading of credit exposure of other assets along with stages is shown below:

Other assets	**Stage 1 AED'000**	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
High	**3,451**	**-**	**-**	**3,451**
Standard	**352,615**	**24,311**	**-**	**376,926**
Watch list	**-**	**-**	**-**	**-**
As at 31 December 2020	**356,066**	**24,311**	**-**	**380,377**

Other assets	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
High	23,163	-	-	23,163
Standard	311,814	134,926	-	446,740
Watch list	2,886	2,305	-	5,191
As at 31 December 2019	337,863	137,231	-	475,094

11. Due to banks

	2020 AED'000	2019 AED'000
Demand deposits	**27,732**	7,732
Term deposits	**1,205,738**	1,869,985
	1,233,470	1,877,717

Term deposits include borrowings through repurchase agreements of AED 605,938,000 (2019: AED 348,888,000). Demand deposits include AED Nil balances (2019: AED Nil) held as margin for derivative transactions.

	2020 AED'000	2019 AED'000
Gross amounts due to banks by geographical area		
Within U.A.E.	**765,038**	1,322,783
Within GCC	**4,609**	57,937
Other countries	**463,823**	496,997
	1,233,470	1,877,717

12. Customers' deposits and Islamic customer deposits

	2020 AED'000	2019 AED'000
Term deposits	**8,359,748**	9,536,572
Current accounts	**2,563,013**	2,834,551
Call and saving accounts	**324,074**	314,445
	11,246,835	12,685,568

Customer' deposits include Islamic customer deposits amounting to AED 3,390,329,000 (2019: AED 3,041,617,000) undertaken through the Bank's Shari'a - compliant Islamic window.

Notes to the Financial Statements

13. Medium term borrowings

Movement in medium term borrowings during the year is as follows:

	2020 AED'000	2019 AED'000
Balance as at 1 January	**1,487,363**	954,850
Issued during the year	**-**	807,951
Repaid during the year	**(1,487,363)**	(275,438)
Balance as at 31 December	**-**	1,487,363

In order to actively manage its balance sheet and optimize fund usage, the Bank has early repaid all its outstanding medium term borrowings in June 2020.

14. Other liabilities

	2020 AED'000	2019 AED'000
Acceptances	**240,863**	314,303
Interest payable	**146,315**	181,709
Negative fair value of derivatives (note 25)	**230,587**	135,503
ECL on off-balance sheet exposures and due from other banks	**112,472**	91,381
Staff related provisions	**17,414**	31,991
Accrued expenses	**38,116**	31,402
Un-presented cheques	**42,297**	25,597
Lease liability (note 28)	**9,838**	18,247
Others	**76,399**	83,826
	914,301	913,959

	2020 AED'000	2019 AED'000
Staff related provisions		
The aggregate employee entitlement liability comprises:		
Employees' end of service benefits	**16,394**	23,058
Other liabilities	**1,020**	8,933
	17,414	31,991

In accordance with UAE labour law, the Bank provides for end of service benefit for its expatriate employees. Movements in the liability recognised in the statement of financial position in respect of end of service benefits are as follows:

	2020 AED'000	2019 AED'000
Liability as at 1 January	**23,058**	28,519
Expense recognised in the statement of income	**4,676**	6,559
End of service benefits paid	**(11,340)**	(12,020)
Liability as at 31 December	**16,394**	23,058

15. Share capital and reserves

a) Share capital

The authorised, issued and fully paid up share capital of the Bank comprises 2,062,550,649 (2019: 2,062,550,649) shares of AED 1 each. See note 23 for details.

b) Special reserve

Decretal Federal Law No. (14) of 2019 concerning the Central Bank, the Monetary System and Organisation of Banking requires that 10% of the net profit is transferred to a non-distributable special reserve until this reserve equals 50% of the paid up share capital. This reserve has been zeroised in 2020, please refer section (c) below.

c) Statutory reserve

UAE Federal Law No.(2) of 2015 and the Articles of Association of the Bank, require that 10% of the net profit is transferred to a non-distributable statutory reserve until this reserve equals 50% of the paid up share capital.

The Bank had in its Annual General Assembly (AGA) meeting held on 13th April 2020 obtained the approval of its shareholders to set off the accumulated losses as at 31 December 2019 against the Special and Statutory reserves held as at that date. Following the receipt of the regulatory consents in June 2020, the accumulated losses as at 31 December 2019 of AED 897,863 thousand have been fully set off against the Special reserve of AED 422,116 thousand and Statutory reserve of AED 475,747 thousand. This has resulted in the special reserve being zeroised and a remaining balance of AED 28,924 thousand in the Bank's statutory reserve.

d) General reserve

The general reserve may be utilised for any purpose to be determined by a resolution of the shareholders of the bank at an ordinary general meeting, on the recommendation of the Board of Directors.

e) Revaluation reserve

The revaluation reserve is used to record increases in the fair value of freehold land and buildings and decreases to the extent that such decreases relate to an increase on the same asset previously recognised in comprehensive income. In 2008, the Bank changed its accounting policy to the cost basis of accounting for land and buildings.

f) Dividends

The directors do not propose any cash dividend for the year ended 31 December 2020 (2019: Nil).

g) Cumulative changes in fair value

Cumulative changes in fair value reserve includes the net change in fair value of FVOCI assets and the net effective portion of changes in fair value of cash flow hedges (if any).

Notes to the Financial Statements

16. Interest income and income from Islamic financing products

	2020 AED'000	2019 AED'000
Interest on loans and advances to customers	**477,398**	677,383
Interest on money market and interbank transactions	**31,878**	101,758
Interest on debt investments securities and profit on sukuk's	**132,653**	145,213
	641,929	924,354

17. Interest expense and distribution to depositors

	2020 AED'000	2019 AED'000
Interest on customer deposits	**240,806**	356,441
Interest on interbank transactions	**107,714**	176,947
	348,520	533,388

18. Net fees and commission income

	2020 AED'000	2019 AED'000
Fees on letters of credit and acceptances	**12,697**	16,300
Fees on guarantees	**26,578**	28,654
Fees on loans and advances	**16,742**	44,379
Commission expense	**(13,708)**	(14,270)
	42,309	75,063

19. Foreign exchange income

Foreign exchange income comprises mainly of net gains of AED 12,693,000 (2019: AED 16,551,000) arising from trading in foreign currencies.

20. Other operating income

	2020 AED'000	2019 AED'000
Charges recovered from customers	**23,218**	28,110
Income from collections	**2,540**	3,753
Others	**24,438**	23,130
	50,196	54,993

Other income primarily includes realized gain of AED 5,033,000 (2019: loss of AED 22,645,000) on sale of FVOCI investments.

21. Other operating expenses

	2020 AED'000	2019 AED'000
Occupancy and maintenance costs	**47,220**	36,112
Legal and professional fees	**13,209**	11,821
Other administrative expenses	**20,850**	29,962
Write-off of property and equipment (note 9)	**2,720**	5,724
	83,999	83,619

22. Net impairment losses

Provision for credit losses recognised in the statement of income is as follows

	2020 AED'000	2019 AED'000
Net impairment of financial assets on:		
Loans and advances and Islamic financing receivables (note 7)	**683,357**	432,367
Contingent liabilities (note 26)	**23,655**	31,390
Due from other banks (note 6)	**26**	50
Investments and Islamic instruments (note 8)	**(2,198)**	1,027
Provision on fair value through other comprehensive income equities	**220**	-
Principal waivers on loans and advances and Islamic financing receivables	**(68)**	43
Net impairment of financial assets on:		
Property, equipment and capital work-in-progress (note 9)	**104,455**	141,308
Other assets (note 10)	**39,366**	108,245
Recovery on bad debts written off	**(40,690)**	(12,973)
Net impairment losses	**808,123**	701,457

23. Loss per share

Basic loss per share is based on the losses attributable to ordinary shareholders and weighted average number of ordinary shares outstanding calculated as follows:

	2020 AED'000	2019 AED'000
Net loss for the year	**(667,295,000)**	(470,753,000)
Weighted average number of ordinary shares:		
Weighted average number of shares of AED 1 each outstanding for the year	**2,062,550,649**	2,062,550,649
Basic loss per share	**(AED 0.32)**	(AED 0.23)

The Bank presents basic and diluted earnings / (loss) per share data for its ordinary shares. Basic loss per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year.

The figures for diluted loss per share are the same as basic loss per share as the Bank has not issued any instruments which would have an impact on loss per share if or when exercised.

24. Related party transactions

The Bank carries out transactions in the ordinary course of business with related parties, defined as shareholders who have a significant equity interest in the Bank, directors of the Bank, key management personnel of the Bank and companies over which such shareholders and directors exercise control or significant influence either directly or indirectly. The significant balances outstanding at 31 December are as follows:

	2020 AED'000	2019 AED'000 Restated
Shareholders:		
Due from banks	**66**	712
Due to other banks	**2,669**	2,566
Medium term borrowings	**-**	165,263
Commitments and contingencies	**5,174**	5,285
Directors:		
Loans and advances	**6,511**	110,588
Customers' deposits	**6,296**	3,294
Commitments and contingencies	**45**	45
Other related entities of shareholders and directors:		
Loans and advances	**180,167**	490,525
Investments	**64,131**	67,198
Due from banks	**29**	32
Due to other banks	**448**	665
Customers' deposits	**243,954**	169,963
Commitments and contingencies	**97,881**	140,105
Key management personnel of the Bank:		
Loans and advances	**4,136**	3,686
Customers' deposits	**1,445**	2,302
Shareholders, directors and their related entities and key management personnel:		
Accrued interest income	**1,595**	5,220
Accrued interest expense	**4,204**	3,946

24. Related party transactions (continued)

The income, expenses, purchase and sale of investments in respect of related parties during the year included in the statement of income are as follows:

Shareholders, directors and their related entities	**2020 AED'000**	2019 AED'000 Restated
Interest income	**17,746**	42,032
Interest expense	**3,776**	8,340
Gain / (loss) from sale of investments	**-**	250
Purchase of investments	**-**	7,079
Sale of investments	**-**	14,509
Sale of loans and receivables	**-**	305,130
Loss on sale of loans and receivables	**-**	44,870

Key management personnel	**2020 AED'000**	2019 AED'000 Restated
Number of key management personnel	**13**	10
Salaries and other short term benefits	**15,923**	16,880
Employees' end of service benefits	**2,156**	800
Total compensation to key management personnel	**18,079**	17,680

	2020 AED'000	2019 AED'000 Restated
Interest income	**111**	69
Interest expense	**1**	19
Expected credit loss release on related party loans and advances	**5,393**	2,710

Terms and conditions of transactions with related parties

The above mentioned outstanding balances and transactions arose from the ordinary course of business and have been conducted on an arm's length. The interest charged to, and by, related parties is at normal commercial rates. Outstanding balances at year end are unsecured. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2020, the Bank has not recorded any stage 3 impairment on amounts owed by related parties (2019: Nil).

The Bank has leased office space in various premises owned by a related party. The property rentals less associated expenses for the year amounted to AED 1,929,000 (2019: AED 4,262,000). The property rentals are negotiated each year at market rates.

The Bank has granted relief vide delayed payments amounting to AED 23,737,000 on total outstanding of AED 140,002,000 due from related parties during the year under the economic incentive programme of the UAE Central Bank.

24. Related party transactions (continued)

Movement in the gross balances of all related party loans and advances

Gross carrying amount	**Stage 1 AED'000**	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
As at 31 December 2019	**344,934**	**249,368**	**-**	**594,302**
Restatement of opening balance	**10,497**	**-**		**10,497**
Net of new assets originated and assets repaid	**(186,984)**	**(7,986)**	**-**	**(194,970)**
Reclassified amounts which are no longer related parties	**-**	**(219,015)**	**-**	**(219,015)**
Write-offs	**-**	**-**	**-**	**-**
Transferred from Stage 1	**(704)**	**704**	**-**	**-**
Transferred from Stage 2	**-**	**-**	**-**	**-**
Transferred from Stage 3	**-**	**-**	**-**	**-**
As at 31 December 2020	**167,743**	**23,071**	**-**	**190,814**

Gross carrying amount	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
As at 31 December 2018	303,020	262,302	-	565,322
Net of new assets originated and assets repaid	6,465	22,515	-	28,980
Write-offs	-	-	-	-
Transferred from Stage 1	-	-	-	-
Transferred from Stage 2	35,449	(35,449)	-	-
Transferred from Stage 3	-	-	-	-
As at 31 December 2019	344,934	249,368	-	594,302

Movement in provision for impairment of related party loans and advances

	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
Balance as at 31 December 2019	**5,185**	**4,180**	**-**	**9,365**
Changes due to provisions recognized in the opening balance that have:				
Transferred to 12 month ECL	**(97)**	**97**	**-**	**-**
Charge to income statement	**(2,970)**	**(1,436)**	**-**	**(4,406)**
Reclassified amounts which are no longer related parties	**-**	**(987)**	**-**	**(987)**
As at 31 December 2020	**2,118**	**1,854**	**-**	**3,972**

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Balance as at 1 January 2019	1,609	4,564	-	6,173
Charge to income statement	3,576	(384)	-	3,192
As at 31 December 2019	5,185	4,180	-	9,365

25. Derivatives

In the ordinary course of business the Bank enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. Derivative financial instruments include forwards and swaps.

25.1 Derivative product types

a) Forward contracts

Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. The Bank has credit exposure to the counterparties of forward contracts.

b) Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

c) Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

Interest rate swaps relate to contracts taken out by the Bank with other financial institutions in which the Bank either receives or pays a floating rate of interest in return for paying or receiving, respectively, a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

In a currency swap, the Bank pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

25.2 Purpose of derivatives

The Bank is a party to derivative instruments in the normal course of meeting the needs of the Bank's customers. In addition, as part of its risk management activity, the Bank uses these derivative instruments for hedging purposes in order to reduce its own exposure to current and expected risks. This is achieved by hedging specific transactions as well as strategic hedging against overall balance sheet exposures.

Derivatives often involve at their inception only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Bank.

Over-the-counter derivatives may expose the Bank to the risks associated with the absence of an exchange market on which to close out an open position.

The derivatives are recorded at fair value by using the published price quotations in an active market or counterparty prices or valuation techniques using a valuation model that has been tested against the prices actual market transactions and the Bank's best estimate of the most appropriate model inputs (note 27).

The tables below show the fair values of derivative financial instruments for risk management and hedging purposes, recorded as assets and liabilities, together with their notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are neither indicative of the market risk nor credit risk.

25. Derivatives (continued)

25.2 Purpose of derivatives (continued)

25.2.1 Derivatives held for risk management

31 December 2020	**Positive fair value AED'000**	**Negative fair value AED'000**	**Notional amount AED'000**	**Notional amounts by term to maturity** **Within 3 months AED'000**	**3-12 months AED'000**	**1-5 years AED'000**	**Over 5 years AED'000**
Forward contracts	**3,687**	**(33)**	**2,299,687**	**1,279,889**	**1,019,798**	**-**	**-**
Interest rate swaps	**4,368**	**(4,368)**	**251,651**	**-**	**-**	**251,651**	**-**
	8,055	**(4,401)**	**2,551,338**	**1,279,889**	**1,019,798**	**251,651**	**-**

31 December 2019	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Notional amounts by term to maturity Within 3 months AED'000	3-12 months AED'000	1-5 years AED'000	Over 5 years AED'000
Forward contracts	14,536	(4,140)	5,150,712	3,094,362	1,885,997	170,353	-
Interest rate swaps	10,627	(10,627)	640,457	-	-	640,457	-
	25,163	(14,767)	5,791,169	3,094,362	1,885,997	810,810	-

Fair value hedges of interest rate risk

The Bank uses interest rate swaps to hedge its exposure to changes in fair values of fixed-rate investments in respect of a benchmark interest rate. Interest rate swaps are matched to specific purchases of investments.

The Bank hedges interest rate risk only to the extent of benchmark interest rates. The benchmark rate is a component of interest rate risk that is observable in relevant environments. Hedge accounting is applied where economic hedge relationships meet the hedge accounting criteria.

When fair value hedge accounting is applied by the Bank, the Bank assesses whether the derivative designated in each hedging relationship is expected to be and has been highly effective in offsetting changes in fair value of the hedged item using regression analysis. The assessment is based on an evaluation of the quantitative measures of the regression results.

The fair value of the swaps is disclosed in other assets (liabilities) and the carrying amount of the hedged items included in the line item 'Investments' in the statement of financial position. Fair value gains on derivatives held in qualifying fair value hedging relationships and the hedging gain or loss on the hedged items are included in other operating income.

At 31 December 2020, the Bank held the following interest rate swaps as hedging instruments in fair value hedges of interest risk, along with amounts relating to hedged items.

	Positive fair value AED'000	**Negative fair value AED'000**	**Notional amount AED'000**	**Notional amounts by term to maturity** **Within 3 months AED'000**	**3-12 months AED'000**	**1-5 years AED'000**	**Over 5 years AED'000**
31 December 2020							
Hedge of investments	**-**	**(226,186)**	**2,114,107**	**-**	**55,822**	**1,099,375**	**958,910**
31 December 2019							
Hedge of investments	-	(120,736)	2,159,177	-	36,725	826,050	1,296,402

25. Derivatives (continued)

25.2 Purpose of derivatives (continued)

25.2.1 Derivatives held for risk management (continued)

Fair value hedges of interest rate risk (continued)

The carrying amount of the hedged items are included in the line item 'Investments' on the statement of financial position with the notional amount totalling to AED 2,311,164,000 (2019: AED 2,291,282,000). These hedged items comprise of debt instruments which are held as FVOCI.

During 2020, the Bank has recognised a gain of AED 249,000 (2019: gain of AED 7,664,000) relating to hedge ineffectiveness calculated as follows:

	2020		**2019**	
	Change in value AED'000	**Effectiveness recognised in profit and loss AED'000**	Change in value AED'000	Effectiveness recognised in profit and loss AED'000
On hedging instruments	**(105,225)**	**249**	(123,361)	7,664
On hedged items	**105,474**		131,025	

25.3 Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Bank. Approximately 97% (2019: 94%) of the Bank's derivative contracts are entered into with other financial institutions.

26. Contingent liabilities and commitments

Credit related commitments

The Bank's contractual amounts in respect of letters of credit and guarantees commit the Bank to make payments on behalf of customers contingent upon the customer satisfying the terms of the contract. The contractual amounts represent the credit risk, assuming that the amounts are fully advanced, guarantees are called for full amount following performance failure, and that any collateral or other security is of no value. However, the total contractual amount of commitments does not necessarily represent future cash requirements since many of such commitments will expire or terminate without being funded.

The loan commitments represent the contractual commitments to make the loan. These commitments are revocable and generally have fixed expiry dates or other termination clauses. Since commitments are revocable, may expire without being drawn down, and also the conditions precedent to draw down have to be fulfilled, the total contract amounts do not necessarily represent future cash outflow requirements.

The Bank has the following credit related commitments:

	2020 AED'000	2019 AED'000
Contingent liabilities		
Letters of credit	**215,578**	278,390
Guarantees	**2,527,627**	3,234,297
	2,743,205	3,512,687
Commitments		
Undrawn loan commitments	**3,098,643**	2,404,959

The undrawn loan commitments of the Bank are all revocable and are not considered for ECL computation.

26. Contingent liabilities and commitments (continued)

Grading of gross balances of loans and advances and Islamic financing receivables along with stages

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
High	16,586	-	-	16,586
Standard	1,843,736	662,643	-	2,506,379
Watch list	-	128,978	-	128,978
Default	-	-	91,262	91,262
Total gross carrying amount	1,860,322	791,621	91,262	2,743,205
Expected credit loss	(18,255)	(56,710)	(37,397)	(112,362)
As at 31 December 2020	**1,842,067**	**734,911**	**53,865**	**2,630,843**

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
High	8,033	117	-	8,150
Standard	2,318,718	945,178	-	3,263,896
Watch list	88,327	84,198	4,090	176,615
Default	-	-	64,026	64,026
Total gross carrying amount	2,415,078	1,029,493	68,116	3,512,687
Expected credit loss	(14,000)	(45,462)	(31,833)	(91,295)
As at 31 December 2019	2,401,078	984,031	36,283	3,421,392

Movement in the gross balance of contingent liabilities

Gross carrying amount	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
As at 31 December 2019	2,415,078	1,029,493	68,116	3,512,687
Changes due to financial assets recognised in the opening balance that have:				
Transferred from Stage 1	(93,053)	90,022	3,031	-
Transferred from Stage 2	3,649	(28,077)	24,428	-
Transferred from Stage 3	-	-	-	-
Originated / (expired) during the year	(465,352)	(299,817)	(4,313)	(769,482)
As at 31 December 2020	**1,860,322**	**791,621**	**91,262**	**2,743,205**

Gross carrying amount	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
As at 1 January 2018	2,970,902	822,716	45,382	3,839,000
Changes due to financial assets recognised in the opening balance that have:				
Transferred from Stage 1	(362,778)	362,778	-	-
Transferred from Stage 2	-	(27,279)	27,279	-
Transferred from Stage 3	-	-	-	-
Originated / (expired) during the year	(193,046)	(128,722)	(4,545)	(326,313)
As at 31 December 2019	2,415,078	1,029,493	68,116	3,512,687

26. Contingent liabilities and commitments (continued)

Movement in the provision for impairment of contingent liabilities

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Balance as at 31 December 2019	**14,000**	**45,462**	**31,833**	**91,295**
Changes due to provisions recognized in the opening balance that have:				
Transferred to 12 month ECL	**587**	**(587)**	**-**	**-**
Transferred to lifetime ECL not credit impaired	**(12,254)**	**12,254**	**-**	**-**
Transferred to lifetime ECL credit impaired	**-**	**(2,961)**	**2,961**	**-**
Transferred from / (to) ECL credit impaired on loans (note 7)	**-**	**(5,191)**	**2,603**	**(2,588)**
Charge to income statement (note 22)	**15,922**	**7,733**	**-**	**23,655**
As at 31 December 2020	**18,255**	**56,710**	**37,397**	**112,362**

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Balance as at 31 December 2018	12,862	30,059	-	42,921
Changes due to provisions recognized in the opening balance that have:				
Transferred to 12 month ECL	637	(637)	-	-
Transferred to lifetime ECL not credit impaired	(10,594)	10,594	-	-
Transferred from ECL credit impaired on loans (note 7)	-	-	16,984	16,984
Charge to income statement (note 22)	3,975	(6,286)	14,849	12,538
Changes in estimate (note 4.2 and 22)	7,120	11,732	-	18,852
As at 31 December 2019	14,000	45,462	31,833	91,295

27. Risk management

Introduction

Risk is inherent in all of the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to their responsibilities.

Risk Management covers all risks including credit, liquidity, market and operational risk, and processes from origination to approval and ongoing control, review, maintenance and reporting of exposures. It also covers the high level organisation, roles and responsibilities of Board and management level committees, and authorities and processes relating to risk management, internal controls, compliance and internal audit functions.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. These are monitored through the Bank's strategic planning process.

Risk management structure

Board level committees

The Board of Directors are ultimately responsible for identifying and controlling risks; however, there are separate board sub-committees responsible for managing and monitoring risks.

(a) Board Credit Committee

The Board Credit Committee (BCC) has the responsibility to establish credit risk strategy and monitor the overall credit process within the Bank for maintaining a diversified portfolio, avoiding undesired risk concentrations, improving the overall asset quality of the portfolio, and complying with Credit Policy and regulatory guidelines.

(b) Board Audit Committee

The Board Audit Committee (BAC) is responsible for monitoring, reviewing and reporting to the Board on the formal arrangements relating to the financial and narrative reporting of the Bank, internal controls, compliance and internal / external audit processes.

27. Risk management (continued)

Risk management structure (continued)

(c) Board Risk Committee

The Board Risk Committee (BRC) has the overall responsibility for the development of the risk strategy and implementing principles, frameworks and policies for enhancing the Bank's risk management framework to best practices standards. This includes, but is not limited to, ensuring effective control structures and the monitoring of aggregate risk exposures (including but not limited to credit, market, liquidity, operational and legal).

(d) Group Remuneration Committee

The Group Remuneration Committee (GRC) acts on behalf of the Board on all matters related to governance, remuneration, nomination and strategic plans, except for those powers and actions that are restricted to the Board on the basis of legal provisions or the Articles. The GRC is responsible for supporting the Board in overseeing the remuneration scheme, in order to ensure that the subject remuneration is appropriate and consistent with the Bank's culture, long-term business and risk appetite, performance and control environment as well as with any legal or regulatory requirements.

Management groups

The Board level committees are further supplemented by the management Banks / functions who are responsible for day to day monitoring of risks.

(a) Risk Management Group

The Risk Management Group is responsible for implementing and maintaining risk related procedures to ensure an independent control process. It works closely with the commercial organization to support their activities, while safe-guarding the risk profile of the Bank. It institutes prudent risk monitoring and control mechanisms (processes and systems) to ensure compliance of individual risk assets and portfolios to agreed terms and policy parameters. It reviews and presents all credit submissions, risk policy and portfolio management reports to the BCC and BRC.

(b) Treasury

Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for managing the funding and liquidity risks of the Bank.

(c) Internal Audit

Risk management processes throughout the Bank are audited annually by the internal audit function that examines both the adequacy of, and the Bank's compliance with, its procedures. Internal Audit discusses the results of all assessments with management and reports its findings and recommendations to the Board Audit Committee.

Risk measurement and reporting systems

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect both the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to identify, analyse and control at an early stage. The Board receives a comprehensive credit risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the credit related risks of the Bank. The report includes aggregate credit exposure, hold limit exceptions, liquidity ratios and risk profile changes. Senior management assess the appropriateness of the allowance for credit losses on a quarterly basis.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure all business divisions have access to extensive, necessary and up-to-date information.

Regular briefings are given to the Chief Executive Officer, GMRC and all other relevant members of management on all aspects of risk taken by the Bank including the utilisation of limits, proprietary investments and liquidity, plus any other risk developments.

27. Risk management (continued)

Risk management structure (continued)

Risk mitigation

The Bank actively uses collateral to reduce its credit risks.

Also, as part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates and foreign currencies.

Risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that a customer or counterparty will fail to meet a commitment / contractual obligation, resulting in a financial loss to the Bank. Such risk arises from lending, trade finance, treasury and other activities undertaken by the Bank. Credit risk is the single largest risk for the Bank's business and is actively monitored in accordance with the credit policies which clearly define delegated lending authorities, policies and procedures. The management of credit risk also involves the monitoring of risk concentrations by industrial sector as well as by geographic location.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including contingent liabilities and commitments. The maximum exposure is shown, before the effect of mitigation through the use of credit enhancements, master netting and collateral agreements.

	Notes	2020 AED'000	2019 AED'000
Cash and balances with UAE Central Bank (excluding cash on hand)	5	**1,341,924**	2,103,437
Due from other banks	6	**296,525**	739,337
Loans and advances (net of provisions)	7	**9,013,639**	11,563,490
Investments	8	**3,281,091**	3,502,068
Other assets*	10	**380,377**	475,094
*excluding prepayments and assets acquired in settlement of debt and lease assets			
Total		**14,313,556**	18,383,426
Letters of credit	26	**215,578**	278,390
Guarantees	26	**2,527,627**	3,234,297
Undrawn loan commitments	26	**3,098,643**	2,404,959
Total		**5,841,848**	5,917,646
Total credit risk exposure		**20,155,404**	24,301,072

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

27. Risk management (continued)

Credit risk (continued)

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client / counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2020 was AED 560,000,000 (2019: AED 560,000,000).

The Bank's maximum exposure to credit risk, after provisions but before taking into account any collateral held or other credit enhancements can be analysed by the following geographical regions:

	2020		2019	
	Assets AED'000	**Contingent liabilities and commitments** AED'000	Assets AED'000	Contingent liabilities and commitments AED'000
United Arab Emirates	**12,999,665**	**5,558,102**	16,905,487	5,694,169
Other Middle East countries	**965,536**	**72,207**	1,013,802	110,344
Europe	**80,571**	**15,009**	75,404	31,616
USA	**18,601**	**-**	63,452	-
Rest of the World	**249,183**	**196,530**	325,281	81,517
Total	**14,313,556**	**5,841,848**	18,383,426	5,917,646

An industry sector analysis of the Bank's maximum exposure to credit risk (excluding cash on hand) after provisions but before taking into account collateral held or other credit enhancements, is as follows:

	2020 AED'000	2019 AED'000
Financial services	**3,210,947**	4,855,554
Trade	**1,610,936**	2,075,331
Manufacturing	**1,185,445**	1,303,934
Government and public sector	**3,157,288**	3,706,503
Construction	**570,042**	628,262
Services	**1,926,413**	2,002,358
Others	**4,308,030**	5,278,601
	15,969,101	19,850,543
Less: impairment provision on loans and advances	**(1,655,545)**	(1,467,117)
	14,313,556	18,383,426

Past due but not impaired

Past due loans and advances include those that are past due on their repayment schedule. Aging analysis of past due but not impaired loans and advances is as follows:

31 December 2020	Less than 30 days AED'000	31 to 60 days AED'000	61 to 90 days AED'000	More than 91 days AED'000	Total AED'000
Loans and advances	**96,274**	**24,215**	**5,166**	**10,053**	**135,708**
31 December 2019					
Loans and advances	34,358	29,076	9,106	32,345	104,885

Approximately 88% (2019: 94%) of the above loans are advanced to the corporate sector.

27. Risk management (continued)

Credit risk (continued)

Loans and advances and Islamic financing receivables with renegotiated terms

Loans and advances and Islamic financing receivables with renegotiated terms are those which have been rescheduled or restructured and where the Bank has made concessions that it would otherwise not consider. Rescheduled and restructured loans are classified under Stage 2 attracting lifetime ECL – not credit impaired impact.

The carrying amount per class of on-balance sheet financial assets whose terms have been renegotiated are as follows:

	2020 AED'000	2019 AED'000
Loans and advances and Islamic financing receivables	**1,147,279**	1,145,739

	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
Outstanding balance	**47,942**	**492,762**	**606,575**	**1,147,279**
Less: Provision for impairment	**(741)**	**(134,570)**	**(396,246)**	**(531,557)**
As at 31 December 2020	**47,201**	**358,192**	**210,329**	**615,722**

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Outstanding balance	39,883	556,477	549,379	1,145,739
Less: Provision for impairment	(794)	(150,645)	(340,707)	(492,146)
As at 31 December 2019	39,089	405,832	208,672	653,593

Collateral and other credit enhancements

The Bank holds collateral and other credit enhancements against certain of its credit exposures. The main types of collateral obtained are cash, securities, charges over real estate properties, vehicles, plant and machinery, inventory and trade receivables. The Bank also obtains guarantees from parent companies for loans to their subsidiaries or other Bank companies. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. Collateral is generally not held against non-trading investment and due from banks and financial institutions. Management monitors the market value of collateral and wherever necessary the Bank requests additional collateral in accordance with the underlying agreement, and considers collateral value during its periodic review of credit facilities and adequacy of provision for impairment on loans and advances.

The percentage of collateralized exposure and the principal types of collateral held against loans and advances are as follows:

	Percentage of collateralized exposure		**Principal type of collateral held**
	2020	2019	
Retail Mortgage Loans	**100%**	100%	Residential property
Corporate customers	**65%**	64%	Cash, securities, vehicles, property and equipment, commercial property, inventory and trade receivables

27. Risk management (continued)

Credit risk (continued)

Retail mortgage loans

Credit exposure on retail mortgage loans by range of loans to value (LTV) ratio are as follows:

LTV ratio	2020 AED'000	2019 AED'000
Less than 50%	**161,956**	189,084
51- 75%	**589,199**	832,682
76- 90%	**580,176**	760,236
91- 100%	**117,327**	140,698
More than 100%	**122,863**	40,094
Total	**1,571,521**	1,962,794

LTV is calculated as the ratio of the gross amount of the loan to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices.

Impaired loans

For impaired loans the value of collateral is based on the most recent appraisals. Credit exposure on impaired retail mortgage loans by range of LTV ratio are as follows:

LTV ratio	2020 AED'000	2019 AED'000
Less than 50%	**18,915**	7,259
51- 75%	**12,328**	25,365
More than 75%	**93,971**	58,772
Total	**125,214**	91,396

At 31 December 2020, the carrying amount of impaired loans and advances to retail customers (including mortgages) amounted to AED 201,033,000 (2019: AED 140,562,000) and the value of identifiable collateral held against those loans and advances amounted to AED 125,735,000 (2019: AED 103,274,000).

Corporate customers

At 31 December 2020, the net carrying amount of impaired loans and advances to corporate customers amounted to AED 1,476,166,000 (2019: AED 1,343,258,000) and the value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to AED 543,608,000 (2019: AED 572,646,000). For each loan, the value of disclosed collateral is capped to the nominal amount of the loan that is held against.

27. Risk management (continued)

Credit risk (continued)

Impairment reserve under the UAE Central Bank

The UAE Central Bank issued its IFRS 9 guidance on 30 April 2019 via notice no. CBUAE/BSD/2019/458 addressing various implementation challenges and practical implications for banks adopting IFRS 9 in the UAE (the "Guidance"). Pursuant to clause 6.4 of the guidance, the reconciliation between general and specific provision under circular 28/2010 of the UAE Central Bank and IFRS 9 is as follows:

	2020 AED'000	2019 AED'000
Impairment Reserve : General		
General Provisions under Circular 28/2010 of UAE Central Bank	**160,375**	215,789
Less: Stage 1 & Stage 2 provisions under IFRS 9	**382,239**	321,931
General Provision transferred to impairment reserve	**-**	-
Impairment Reserve : Specific		
Specific Provisions under Circular 28/2010 of UAE Central Bank	**849,669**	1,145,186
Less: Stage 3 provisions under IFRS 9	**1,273,305**	1,145,186
Specific Provision transferred to impairment reserve	**-**	-

Liquidity risk

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due under both normal and stressed circumstances. To limit this risk, management have arranged diversified funding sources in addition to its core deposit base and adopted a policy of managing assets with liquidity in mind and of monitoring future cash flows and liquidity on a daily basis. The Bank has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high-grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains a statutory deposit with the Central Bank of UAE equal to 7% of current deposits and 1% of time deposits (2019: 14% of current deposits and 1% of time deposits). In accordance with the Bank's policy, the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

The most important of these is to maintain the regulatory limits for Lending to Stable Resources and Eligible Liquid Assets to total liabilities ratios. The Bank stresses the importance of current accounts, time deposits and savings accounts as a source of funds to finance its lending to customers. They are monitored using the lending to stable resources ratio, which compares loans and advances to customers as a percentage of core customer current and savings accounts, together with medium term borrowing. Eligible Liquid Assets ratio was introduced by Central Bank of the UAE in 2015 and replaced the Liquid Assets ratio. Eligible liquid assets consist of cash, balances with the Central Bank of UAE, short term bank deposits and eligible debt securities. The ratios as at the year-end were as follows:

	2020	2019
Lending to Stable Resources Ratio	**80.5%**	78.9%
Eligible Liquid Assets Ratio	**16.4%**	18.7%

27. Risk management (continued)

Liquidity risk (continued)

Maturities of assets and liabilities based on the remaining period at the statement of financial position date to the contractual maturity date not taking account of the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds, as at 31 December 2020 is as follows:

	Less than 3 months AED'000	From 3 months to 6 months AED'000	From 6 months to 12 months AED'000	Subtotal less than 12 months AED'000	1 to 5 years AED'000	Over 5 years AED'000	Subtotal over 12 months AED'000	Undated AED'000	Total AED'000
Assets									
Cash and balances with the UAE Central Bank	1,406,322	-	-	1,406,322	-	-	-	-	1,406,322
Due from other banks	296,525	-	-	296,525	-	-	-	-	296,525
Loans and advances (Gross)	2,601,665	424,223	203,881	3,229,769	2,975,821	4,463,593	7,439,414	-	10,669,183
Investments	91,950	188,279	61,303	341,532	1,508,276	1,431,280	2,939,556	638	3,281,726
Property, equipment and capital work-in-progress	-	-	-	-	-	-	-	327,790	327,790
Other assets	311,556	53,719	35,275	400,550	122,597	-	122,597	-	523,147
Provision for impairment of loans and advances and interest in suspense	(1,655,544)	-	-	(1,655,544)	-	-	-	-	(1,655,544)
Total assets	3,052,474	666,221	300,459	4,019,154	4,606,694	5,894,873	10,501,567	328,428	14,849,149
Liabilities and shareholders' funds									
Due to banks	866,220	-	367,250	1,233,470	-	-	-	-	1,233,470
Customers' deposits	7,058,238	1,882,180	1,890,771	10,831,189	415,646	-	415,646	-	11,246,835
Medium term borrowings	-	-	-	-	-	-	-	-	-
Other liabilities	579,790	52,789	35,055	667,634	89,104	141,169	230,273	16,394	914,301
Shareholders' equity	-	-	-	-	-	-	-	1,454,543	1,454,543
Total liabilities and shareholders' equity	8,504,248	1,934,969	2,293,076	12,732,293	504,750	141,169	645,919	1,470,937	14,849,149
Net liquidity gap	(5,451,774)	(1,268,748)	(1,992,617)	(8,713,139)	4,101,944	5,753,704	9,855,648	(1,142,509)	-

27. Risk management (continued)

Liquidity risk (continued)

The maturity profile of assets and liabilities at 31 December 2019 was as follows:

	Less than 3 months AED'000	From 3 months to 6 months AED'000	From 6 months to 12 months AED'000	Subtotal less than 12 months AED'000	1 to 5 years AED'000	Over 5 years AED'000	Subtotal over 12 months AED'000	Undated AED'000	Total AED'000
Assets									
Cash and balances with the UAE Central Bank	1,984,497	100,000	100,000	2,184,497	-	-	-	-	2,184,497
Due from other banks	739,337	-	-	739,337	-	-	-	-	739,337
Loans and advances (Gross)	2,845,340	823,146	841,894	4,510,380	3,233,622	5,286,605	8,520,227	-	13,030,607
Investments	-	51,564	258,720	310,284	1,374,622	1,817,059	3,191,681	831	3,502,796
Property, equipment and capital work-in-progress	-	-	-	-	-	-	-	430,570	430,570
Other assets	406,587	86,147	14,529	507,263	191,452	5,516	196,968	-	704,231
Provision for impairment of loans and advances and interest in suspense	(1,467,117)	-	-	(1,467,117)	-	-	-	-	(1,467,117)
Total assets	4,508,644	1,060,857	1,215,143	6,784,644	4,799,696	7,109,180	11,908,876	431,401	19,124,921
Liabilities and shareholders' funds									
Due to banks	1,074,233	91,813	631,671	1,797,717	80,000	-	80,000	-	1,877,717
Customers' deposits	8,375,551	2,386,854	1,110,806	11,873,211	812,357	-	812,357	-	12,685,568
Medium term borrowings	-	-	771,225	771,225	716,138	-	716,138	-	1,487,363
Other liabilities	664,671	83,874	11,203	759,748	38,157	92,996	131,153	23,058	913,959
Shareholders' equity	-	-	-	-	-	-	-	2,160,314	2,160,314
Total liabilities and shareholders' equity	10,114,455	2,562,541	2,524,905	15,201,901	1,646,652	92,996	1,739,648	2,183,372	19,124,921
Net liquidity gap	(5,605,811)	(1,501,684)	(1,309,762)	(8,417,257)	3,153,044	7,016,184	10,169,228	(1,751,971)	-

27. Risk management (continued)

Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2020 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Financial Liabilities	**Carrying amount AED'000**	**On demand AED'000**	**Less than 3 months AED'000**	**3 to 12 months AED'000**	**1 to 5 years AED'000**	**Over 5 years AED'000**	**Total AED'000**
31 December 2020							
Due to banks	**1,233,470**	**27,732**	**845,580**	**370,654**	**-**	**-**	**1,243,966**
Customers' deposits	**11,246,835**	**2,699,327**	**4,399,669**	**3,894,445**	**457,183**	**-**	**11,450,624**
Medium term borrowings	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other liabilities	**683,714**	**279,122**	**317,052**	**86,559**	**981**	**-**	**683,714**
Financial derivatives	**230,587**	**-**	**14,455**	**43,300**	**177,024**	**57,389**	**292,168**
Total undiscounted financial liabilities	**13,394,606**	**3,006,181**	**5,576,756**	**4,394,958**	**635,188**	**57,389**	**13,670,472**

Financial Liabilities	Carrying amount AED'000	On demand AED'000	Less than 3 months AED'000	3 to 12 months AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
31 December 2019							
Due to banks	1,877,717	7,732	1,073,365	742,462	81,935	-	1,905,494
Customers' deposits	12,685,568	2,928,302	5,531,933	3,596,785	916,901	-	12,973,921
Medium term borrowings	1,487,363	-	-	790,351	752,103	-	1,542,454
Other liabilities	778,456	250,454	433,940	94,062	-	-	778,456
Financial derivatives	135,503	-	14,730	44,094	205,830	87,979	352,633
Total undiscounted financial liabilities	16,964,607	3,186,488	7,053,968	5,267,754	1,956,769	87,979	17,552,958

The disclosed financial derivative instruments in the above table are the gross undiscounted cash flows. However, these amounts may be settled gross or net. The following table shows the corresponding carrying amounts.

	On demand AED'000	**Less than 3 months AED'000**	**3 to 12 months AED'000**	**1 to 5 years AED'000**	**Over 5 years AED'000**	**Total AED'000**
31 December 2020						
Inflows	**-**	**1,173**	**2,894**	**17,808**	**12,779**	**34,654**
Outflows	**-**	**(14,455)**	**(43,300)**	**(177,024)**	**(57,389)**	**(292,168)**
Net	**-**	**(13,282)**	**(40,406)**	**(159,216)**	**(44,610)**	**(257,514)**
Discounted at applicable interbank rates	**-**	**(13,250)**	**(40,326)**	**(158,764)**	**(44,319)**	**(256,659)**

27. Risk management (continued)

Liquidity risk (continued)

	On Demand AED'000	Less Than 3 Months AED'000	3 to 12 Months AED'000	1 to 5 Years AED'000	Over 5 Years AED'000	Total AED'000
31 December 2019						
Inflows	-	10,066	28,779	124,606	54,435	217,886
Outflows	-	(14,730)	(44,094)	(205,830)	(87,979)	(352,633)
Net	-	(4,664)	(15,315)	(81,224)	(33,544)	(134,747)
Discounted at applicable interbank rates	-	(4,575)	(15,036)	(79,853)	(32,942)	(132,406)

The table below shows the contractual maturity profile of the Bank's contingent liabilities and commitments:

	On Demand AED'000	**Less Than 3 Months AED'000**	**3 to 12 Months AED'000**	**1 to 5 Years AED'000**	**Over 5 Years AED'000**	**Total AED'000**
31 December 2020						
Contingent liabilities	**-**	**1,963,756**	**609,801**	**169,648**	**-**	**2,743,205**
Commitments	**3,098,643**	**-**	**-**	**-**	**-**	**3,098,643**
Total	**3,098,643**	**1,963,756**	**609,801**	**169,648**	**-**	**5,841,848**
31 December 2019						
Contingent liabilities	-	2,623,513	739,248	149,926	-	3,512,687
Commitments	2,404,959	-	-	-	-	2,404,959
Total	2,404,959	2,623,513	739,248	149,926	-	5,917,646

The Bank expects that not all of the contingent liabilities or commitments will be drawn and therefore the actual cash flows are expected to be significantly lower than those reflected in the above table.

Market risk

Market risk arises from fluctuations in interest rates, foreign exchange rates and equity prices. The Board has set limits on the value of risk that may be accepted. This is monitored on a regular basis by the Bank's Asset and Liability Committee (ALCO).

27. Risk management (continued)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or reprice in a given period. The Board has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing bands. ALCO is the monitoring body for compliance with these limits and is assisted by Treasury in its day-to-day monitoring activities.

The following table summarises interest rate sensitivity position at the year end. A summary of the Bank's interest rate gap position on non-trading portfolios is as follows:

31 December 2020	Less than 3 months AED'000	3 to 12 months AED'000	1 to 5 years AED'000	Over 5 years AED'000	Non-interest sensitive AED'000	Carrying amount AED'000
Assets						
Cash and balances with the UAE Central Bank	850,000	-	-	-	556,322	1,406,322
Due from other banks	-	-	-	-	296,525	296,525
Loans and advances	6,157,113	465,753	1,750,293	640,480	-	9,013,639
Investments	91,950	249,582	1,508,276	1,431,283	635	3,281,726
Property, equipment and capital work-in-progress	-	-	-	-	327,790	327,790
Other assets	-	-	-	-	523,147	523,147
Total assets	7,099,063	715,335	3,258,569	2,071,763	1,704,419	14,849,149
Liabilities and shareholders' equity						
Due to banks	838,488	367,250	-	-	27,732	1,233,470
Customers' deposits	4,554,119	3,732,588	397,115	-	2,563,013	11,246,835
Medium term borrowings	-	-	-	-	-	-
Other liabilities	-	-	-	-	914,301	914,301
Shareholders' equity	-	-	-	-	1,454,543	1,454,543
Total liabilities and shareholders' equity	5,392,607	4,099,838	397,115	-	4,959,589	14,849,149
On-balance sheet	1,706,456	3,384,503)	2,861,454	2,071,762	(3,255,170)	-
Off-balance sheet	2,365,758	-	-	-	2,299,687	4,665,445
Cumulative interest rate sensitivity gap	4,072,214	687,711	3,549,165	5,620,928	4,665,445	-

Notes to the Financial Statements

27. Risk management (continued)

Interest rate risk (continued)

31 December 2019	Less than 3 months AED'000	3 to 12 months AED'000	1 to 5 years AED'000	Over 5 years AED'000	Non-interest sensitive AED'000	Carrying amount AED'000
Assets						
Cash and balances with the UAE Central Bank	1,050,000	200,000	-	-	934,497	2,184,497
Due from other banks	493,975	-	-	-	245,362	739,337
Loans and advances	7,401,635	1,103,919	2,288,146	769,790	-	11,563,490
Investments	36,725	246,900	1,334,230	1,884,110	831	3,502,796
Property, equipment and capital work-in-progress	-	-	-	-	430,570	430,570
Other assets	-	-	-	-	704,231	704,231
Total assets	8,982,335	1,550,819	3,622,376	2,653,900	2,315,491	19,124,921
Liabilities and shareholders' equity						
Due to banks	1,066,503	723,482	80,000	-	7,732	1,877,717
Customers' deposits	5,616,376	3,436,516	798,125	-	2,834,551	12,685,568
Medium term borrowings	1,487,363	-	-	-	-	1,487,363
Other liabilities	-	-	-	-	913,959	913,959
Shareholders' equity	-	-	-	-	2,160,314	2,160,314
Total liabilities and shareholders' equity	8,170,242	4,159,998	878,125	-	5,916,556	19,124,921
On-balance sheet	812,093	(2,609,179)	2,744,251	2,653,900	(3,601,065)	-
Off-balance sheet	2,799,634	-	-	-	5,150,712	7,950,346
Cumulative interest rate sensitivity gap	3,611,727	1,002,548	3,746,799	6,400,699	7,950,346	-

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's income statement.

The sensitivity of the statement of income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2020, including the effect of hedging instruments.

	2020		2019	
	Change in basis points	**Sensitivity of net interest income** AED'000	Change in basis points	Sensitivity of net interest income AED'000
Increase in rate	**+25**	**23,135**	+25	23,944
Increase in rate	**-25**	**(23,135)**	-25	(23,944)

The interest rate sensitivity set out above relates primarily to the US Dollar as the Bank does not have any significant net exposure for non-trading floating rate financial assets and financial liabilities denominated in other currencies.

The Bank is also exposed to fair value risk arising from its unhedged fixed rate bonds portfolio. A change in the fair value of these bonds by +/-5% will result in a positive/negative change in the fair value reserve in equity by AED 2,256,000 (2019: AED 625,000).

27. Risk management (continued)

Interest rate benchmark reform

A fundamental reform of major interest rate benchmarks is being undertaken globally to replace or reform IBOR with alternative risk-free rates (referred to as 'IBOR reform'). There is uncertainty over the timing and the methods of transition. The Bank is still in the process of evaluating the impact of this reform across its accounting, operational and risk management functions across its business lines.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

As the UAE Dirham and most of the GCC currencies are currently pegged to the US Dollar, balances in US Dollars are not considered to represent significant currency risk.

The tables below indicates the currencies to which the Bank had significant exposure at 31 December 2020 on its monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the AED, with all other variables held constant on the statement of income (due to the fair value of currency sensitive monetary assets and liabilities) and equity. A negative amount in the table reflects a potential net reduction in income statement, while a positive amount reflects a net potential increase.

	2020		2019	
Currency	**Change in currency rate in %**	**Effect on profit AED'000**	Change in currency rate in %	Effect on profit AED'000
EUR	**+10**	**(27)**	+10	182
GBP	**+10**	**2**	+10	2

Concentration of financial assets and liabilities by currency

	AED AED'000	**USD AED'000**	**Other AED'000**	**Total AED'000**
Cash and balances with UAE Central Bank	**1,406,322**	**-**	**-**	**1,406,322**
Due from other banks	**13,492**	**239,710**	**43,323**	**296,525**
Loans and advances and Islamic financing receivables	**8,151,437**	**855,554**	**6,648**	**9,013,639**
Investments and Islamic instruments	**542**	**3,231,817**	**49,367**	**3,281,726**
Property, equipment and capital work-in-progress	**327,790**	**-**	**-**	**327,790**
Other assets	**484,382**	**37,946**	**819**	**523,147**
Total assets	**10,383,965**	**4,365,027**	**100,157**	**14,849,149**
Due to banks	**641,668**	**591,788**	**14**	**1,233,470**
Customers' deposits and Islamic customer deposits	**7,504,302**	**1,617,131**	**2,125,402**	**11,246,835**
Medium term borrowings	**-**	**-**	**-**	**-**
Other liabilities	**619,886**	**252,129**	**42,286**	**914,301**
Total liabilities	**8,765,856**	**2,461,048**	**2,167,702**	**13,394,606**
Net shareholders' equity	**1,453,763**	**(5,121)**	**5,904**	**1,454,546**
Net balance sheet position	**164,346**	**1,909,100**	**(2,073,449)**	**(3)**
Off-balance sheet position	**(163,229)**	**(1,903,463)**	**2,070,380**	**3,688**

27. Risk management (continued)

Currency risk (continued)

Concentration of financial assets and liabilities by currency (continued)

	AED AED'000	USD AED'000	Other AED'000	Total AED'000
Cash and balances with UAE Central Bank	2,093,602	90,895	-	2,184,497
Due from other banks	101,608	597,428	40,301	739,337
Loans and advances and Islamic financing receivables	10,330,876	1,216,936	15,678	11,563,490
Investments and Islamic instruments	442	3,455,695	46,659	3,502,796
Property, equipment and capital work-in-progress	430,570	-	-	430,570
Other assets	647,580	55,934	717	704,231
Total assets	13,604,678	5,416,888	103,355	19,124,921
Due to banks	1,047,707	829,985	25	1,877,717
Customers' deposits and Islamic customer deposits	8,748,744	1,666,362	2,270,462	12,685,568
Medium term borrowings	-	1,487,363	-	1,487,363
Other liabilities	641,620	204,124	68,206	913,950
Total liabilities	10,438,071	4,187,834	2,338,693	16,964,598
Net shareholders' equity	2,123,200	32,102	5,015	2,160,317
Net balance sheet position	1,043,407	1,196,952	(2,240,353)	6
Off-balance sheet position	(1,031,584)	(1,194,435)	2,236,416	10,397

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

27. Risk management (continued)

Current Economic Situation

The economic fallout of COVID-19 crisis continues to rapidly evolve at the present time. Regulators and governments across the globe have introduced fiscal and economic stimulus measures to mitigate any impact of the corona virus. The Central Bank of the UAE ("CBUAE") has announced (a) TESS (Targeted Economic Support Scheme) and (b) Capital and Liquidity stimulus packages. The aggregate value of all the measures adopted till date by the CBUAE is AED 256 billion. The Bank has participated in the scheme of CBUAE.

In line with the IASB guidance issued on 27th March 2020, the CBUAE introduced a joint guidance on 22 April 2020 which stipulates the following considerations while measuring ECL:

a) Temporary moratorium on payments, or a waiver of a breach of covenant in itself is not considered an SICR trigger in the current environment, therefore

b) For the duration of the COVID-19 pandemic, aside from scenario inputs to be considered gradually, CBUAE does not expect any re-calibration of the macro models

c) The Bank distinguishes between obligors whose long-term credit risk is unlikely to be significantly affected by the COVID-19 from those who may be more permanently impacted. These factors are considered to determine whether there is a case of SICR.

Impact of Covid-19 on ECL

IFRS 9 framework requires estimation of ECL based on current and forecast economic conditions. In order to assess ECL under forecast economic conditions, the Bank utilizes a range of economic scenarios of varying severity, and with appropriate weightings, to ensure that ECL estimates are representative of a range of possible economic outcomes. The Bank has robust governance in place to ensure the appropriateness of the IFRS 9 framework and resultant ECL estimates at all times.

The Bank has reviewed the potential impact of COVID-19 outbreak on the inputs and assumptions for IFRS 9 ECL measurement in light of available information. Overall, the COVID-19 situation remains fluid and is rapidly evolving at this point, which makes it challenging to reliably reflect its impact in our ECL estimates. Notwithstanding this, recognizing that the outbreak is expected to have an impact on the macro-economic environment beyond reasonable doubt, the Bank has assessed the impact of an increase in probability for the pessimistic scenario and removal of any upside scenario in the ECL measurement on as follows:

Scenario	Assigned probabilities Pre COVID-19	Assigned probabilities Post COVID-19
Base	72%	40%
Upside	14%	20%
Downside	14%	40%

These changes in the assigned probabilities of the macroeconomic scenario and the management overlays resulted in additional ECL of AED 165 million for the year ended 31 December 2020. Overlays are judgmental and the Bank will continue to reassess the impact of these on a regular basis.

As per the disclosure requirements of the Central Bank of UAE in the context of Covid-19, the Bank has divided its customers benefitting from payment deferrals into two groups (Group 1 and Group 2). Customers not expected to face substantial changes in their creditworthiness, beyond liquidity issues caused by the Covid-19 crisis, have been categorized in Group 1. Customers expected to be significantly impacted by Covid-19 in the long term and that are expected to face substantial deterioration in their creditworthiness have been categorized in Group 2.

27. Risk management (continued)

Analysis of customers benefitting from payment deferrals

The table below contains the outstanding balances and related ECL of customers benefitting from payment deferrals:

31 December 2020	Group	Number of customers / accounts	Payment deferrals AED'000	Total exposure AED'000	Impairment allowance AED'000
Retail banking					
Stage 1	Group 1	**1,127**	**42,832**	**555,948**	**4,235**
Stage 2	Group 1	**70**	**2,908**	**51,376**	**14,601**
	Group 2	**177**	**6,294**	**61,880**	**13,942**
Stage 3	Group 1	**16**	**767**	**10,201**	**1,956**
	Group 2	**42**	**816**	**7,414**	**2,886**
		1,432	**53,617**	**686,819**	**37,620**
Wholesale banking					
Stage 1	Group 1	**34**	**110,553**	**1,165,635**	**21,472**
Stage 2	Group 1	**6**	**18,757**	**237,550**	**33,979**
	Group 2	**15**	**140,710**	**561,427**	**144,021**
		55	**270,020**	**1,964,612**	**199,472**
Total Loans and advances					
Stage 1	Group 1	**1,161**	**153,385**	**1,721,583**	**25,707**
Stage 2	Group 1	**76**	**21,665**	**288,926**	**48,580**
	Group 2	**192**	**147,004**	**623,307**	**157,963**
Stage 3	Group 1	**16**	**767**	**10,201**	**1,956**
	Group 2	**42**	**816**	**7,414**	**2,886**
		1,487	**323,637**	**2,651,431**	**237,092**

As at 31 December 2020, the Zero Cost Funding (ZCF) under the CBUAE TESS program availed by the Bank amounts to AED 330,500,000. The total installment deferred on wholesale and retail banking customers amounts to AED 449,110,000 which is equivalent to the full amount of the approved limit of ZCF for the Bank by CBUAE under the TESS program, of which AED 323,637,000 has been utilized net off repayments as at 31 December 2020.

27. Risk management (continued)

Movement in the gross balances of wholesale and retail banking customers benefitting from payment deferrals:

Loans and advances	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
As at 31 December 2019	1,925,766	710,894	3,861	2,640,521
Net of new assets originated and assets repaid	(6,896)	15,854	1,952	10,910
Write-offs	-	-	-	-
Transferred from Stage 1	(214,539)	214,539	-	-
Transferred from Stage 2	17,251	(29,053)	11,802	-
Transferred from Stage 3	-	-	-	-
As at 31 December 2020	**1,721,582**	**912,234**	**17,615**	**2,651,431**

Movement in the provision of wholesale and retail banking customers benefitting from payment deferrals:

Loans and advances	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
As at 31 December 2019	23,447	85,305	-	108,752
Net of new assets originated and assets repaid	4,437	119,463	4,440	128,340
Write-offs	-	-	-	-
Transferred from Stage 1	(2,668)	2,668	-	-
Transferred from Stage 2	491	(893)	402	-
Transferred from Stage 3	-	-	-	-
As at 31 December 2020	**25,707**	**206,543**	**4,842**	**237,092**

28. Right of use assets and lease liabilities

The Bank adopted IFRS 16 Leases from 1 January 2019. Set out below are the carrying amounts of right-of-use assets (included under 'Other Assets' in Note 10) and lease liabilities (included under 'Other Liabilities' in Note 14) and the movements during the year:

Right-of-use assets	2020 AED'000	2019 AED'000
As at 1 January	18,059	32,575
Less: Asset retirement obligation	(3,699)	(499)
Less: Depreciation charge	(4,522)	(14,017)
As at 31 December	**9,838**	18,059

Lease liabilities	2020 AED'000	2019 AED'000
As at 1 January	18,247	25,049
Add: Accretion of interest	326	553
Less: Payments	(4,529)	(8,340)
Less: Liability (retirement) / increase in obligation	(4,206)	985
As at 31 December	**9,838**	18,247

29. Segmental analysis

For the purposes of reporting to the chief operating decision makers, the Bank is organised into two segments:

Wholesale banking - principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers. This segment also includes Financial Markets which is principally involved in providing money market, trading and treasury services, as well as the management of the Bank's funding operations; and

Retail banking - principally handling individual customers' deposits, and providing consumer type loans, overdrafts, credit card facilities and funds transfer facilities as well as Islamic banking services

Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged / credited to business segments based on a pool rate which approximates the marginal cost of funds.

Segmental information for the year ended 31 December 2020 is as follows:

	Wholesale Banking AED'000	**Retail Banking AED'000**	**Total AED'000**
Net interest income and income from Islamic products net of distribution to depositors	**208,591**	**84,818**	**293,409**
Other operating income	**103,347**	**6,107**	**109,454**
Operating expenses	**(191,956)**	**(70,079)**	**(262,035)**
Net impairment losses	**(702,460)**	**(105,663)**	**(808,123)**
Loss for the year	**(582,478)**	**(84,817)**	**(667,295)**
Capital Expenditure - Property and equipment	**23,756**	**4,060**	**27,816**
31 December 2020 Segment Assets	**12,681,841**	**2,167,308**	**14,849,149**
Segment Liabilities	**10,753,905**	**2,640,701**	**13,394,606**

Segmental information for the year ended 31 December 2019 was as follows:

	Wholesale Banking AED'000	Retail Banking AED'000	Total AED'000
Net interest income and income from Islamic products net of distribution to depositors	305,336	85,630	390,966
Other operating income	135,988	17,810	153,798
Operating expenses	(218,354)	(95,706)	(314,060)
Net impairment losses	(629,309)	(72,148)	(701,457)
Loss for the year	(406,339)	(64,414)	(470,753)
Capital Expenditure - Property and equipment	20,861	3,811	24,672
31 December 2020 Segment Assets	16,174,103	2,950,818	19,124,921
Segment Liabilities	14,458,301	2,506,306	16,964,607

The Bank operates in only one geographic area, the Middle East. Accordingly, no geographical analysis of operating income, net profit and net assets is given.

30. Fair values of financial instruments

Determination of fair value and fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1 - quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2 - other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3 - techniques that use inputs which have a significant effect on the recorded fair value that are not based on observable market data

Financial instruments and assets recorded at fair value

The following table shows an analysis of financial instruments and assets recorded at fair value by level of the fair value hierarchy:

31 December 2020	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Financial assets				
Derivative financial instruments				
Interest rate swaps	-	4,368	-	4,368
Forward contracts	-	3,687	-	3,687
Currency swaps	-	-	-	-
	-	8,055	-	8,055
Financial investments FVOCI				
Quoted investments				
Government debt securities	1,391,137	-	-	1,391,137
Other debt securities	1,889,954	-	-	1,889,954
Equities	92	-	-	92
Unquoted Investments				
Equities	-	-	543	543
	3,281,183	-	543	3,281,726
Financial liabilities				
Derivative financial instruments				
Interest rate swaps	-	230,554	-	230,554
Forward contracts	-	33	-	33
Currency options	-	-	-	-
	-	230,587	-	230,587

30. Fair values of financial instruments (continued)

Financial instruments and assets recorded at fair value (continued)

The following table shows an analysis of financial instruments and assets recorded at fair value by level of the fair value hierarchy:

31 December 2019	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Financial assets				
Derivative financial instruments				
Interest rate swaps	-	10,627	-	10,627
Forward contracts	-	14,536	-	14,536
Currency swaps	-	-	-	-
	-	25,163	-	25,163
Financial investments FVOCI				
Quoted investments				
Government debt securities	1,418,613	-	-	1,418,613
Other debt securities	2,065,072	-	-	2,065,072
Equities	285	-	-	285
Unquoted Investments				
Equities	-	-	543	543
	3,483,970	-	543	3,484,513
Financial liabilities				
Derivative financial instruments				
Interest rate swaps	-	131,363	-	131,363
Forward contracts	-	4,140	-	4,140
Currency options	-	-	-	-
	-	135,503	-	135,503

The following is a description of the determination of fair value for financial instruments and assets which are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

30.1 Derivatives

Derivative products valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency options and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

30.2 Financial investments

Financial investments valued using a valuation technique or pricing models primarily consist of unquoted equities. These assets are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

30.3 Movements in level 3 financial instruments measured at fair value

During the year, the Bank has invested in unquoted shares of a company amounting to AED Nil (2019: AED Nil) which have been categorised as level 3. There was no other movement between the levels of financial instruments during the year (2019: AED Nil).

30.4 Gains or losses on level 3 financial instruments included in the profit or loss for the year:

No gains or losses on level 3 financial instruments were included in the profit or loss for the year (2019: AED Nil).

30.5 Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions

The impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions by class of instrument is negligible.

30. Fair values of financial instruments (continued)

30.6 Financial instruments not recorded at fair value

The fair values of financial instruments not recorded at fair value includes cash and balances with UAE Central Bank, due from other banks, loans and advances, other assets (excluding derivative assets), due to banks, customers' deposits and other liabilities (excluding derivative liabilities) that are categorised as level two based on market observable inputs. The fair values of financial instruments not recorded at fair value are not materially different to their carrying values.

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

30.6.1 Asset for which fair value approximates carrying value

For financial assets and financial liabilities that have short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without specific maturity.

30.6.2 Financial instruments carried at amortised cost

The fair value of the quoted debt instruments at amortised cost as at 31 December 2020 amounted to AED Nil (2019: AED 18,247,000). The fair value determination of the quoted debt instruments will fall under level 1 category wherein fair value is determined based on inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

31. Capital adequacy

The Bank actively manages the capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules / ratios") and adopted by the Central Bank of UAE in supervising the Bank.

31.1 Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and maximise shareholders' value.

The Bank manages its capital base and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital base, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The risk asset ratio calculations, in accordance with the capital adequacy guidelines as per Basel II and III established for the global banking industry, are as follows:

31. Capital adequacy (continued)

Capital structure

The table below details the regulatory capital resources of the Bank:

	2020 AED'000	2019 AED'000
Tier 1 Capital		
Share capital	**2,062,550**	2,062,550
Statutory reserve	**28,924**	504,671
Special reserve	**-**	422,116
General reserve	**9,311**	9,311
Fair value reserves on investment securities at FVOCI	**9,224**	26,538
Accumulated losses	**(667,257)**	(897,863)
Add back of ECL under TESS program	**73,639**	-
Regulatory deduction for amounts exceeding large exposure threshold	**(45,496)**	-
Total Tier 1	**1,470,895**	2,127,323
Tier 2 Capital		
Eligible general provision	**133,649**	179,825
Total Tier 2	**133,649**	179,825
Total Regulatory Capital	**1,604,544**	2,307,148
Risk weighted exposures		
Credit Risk	**10,691,945**	14,385,957
Market Risk	**1,295**	2,440
Operational Risk	**1,055,571**	1,258,429
	11,748,811	15,646,826
Tier I and II Capital		
Tier I Capital	**1,470,895**	2,127,323
Tier II Capital	**133,649**	179,825
Capital Base	**1,604,544**	2,307,148

31.2 Capital Ratio:

	2020	2019
Total regulatory capital as a percentage of total risk weighted assets	**13.7%**	14.7%
Total tier I regulatory capital as a percentage of total risk weighted assets	**12.5%**	13.6%

Minimum capital required under each of the above items including capital conversion buffer ("CCB") is as below;

	2020		2019
Capital element	**Revised under TESS**	**Original**	**Original**
Minimum Common Equity Tier 1 (CET 1) ratio	**7%**	**7%**	7%
Minimum tier 1 capital ratio	**8.5%**	**8.5%**	8.5%
Minimum capital adequacy ratio	**10.5%**	**10.5%**	10.5%
CCB	**1.0%**	**2.5%**	2.5%

Notes to the Financial Statements

31. Capital adequacy (continued)

Capital structure (continued)

As part of the capital stimulus package provided by the CBUAE under the TESS program, Banks are allowed to tap into the capital conservation buffer of 2.5% up to a maximum of 60% effective from 15 March 2020 until 31 December 2021. Upon full consumption of this capital relief, the minimum capital adequacy ratio requirement reduces to 11.5% (as opposed to 13.0% previously applicable) for reporting periods falling within the specified duration. The Bank continues to be in compliance with this revised minimum capital threshold requirement as per CBUAE guidelines for the year ended 31 December 2020.

32. Social contribution

Social contributions (including donations and charity) made during the year to various beneficiaries amount to AED 755,000 (2019: AED 735,600).

33. Zakat

The articles of association of the Bank do not require the Bank to pay zakat on behalf of its shareholders. Consequently, distribution of the zakat is the responsibility of the shareholders of the Bank.

34. Legal proceedings

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has proper controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. Based on the information available, no material adverse impact on the financial position of the Bank is expected to arise from legal claims as at 31 December 2020 other than to the extent already provided, hence no additional provision for any claim needs to be made in these financial statements.

35. Interest Rate Benchmark (IBOR) reform

A fundamental reform of major interest rate benchmarks is being undertaken globally to replace or reform IBOR with alternative risk-free rates (referred to as 'IBOR reform'). The Bank has exposure to interbank offered rates (IBORs) on its financial instruments that will be replaced or reformed as part of this market-wide initiative. There is uncertainty over the timing and the methods of transition. The Bank anticipates that IBOR reform will have 'limited' operational, risk management and accounting impacts across all of its business lines. The Bank has established a cross-functional IBOR Transition Committee (referred to as 'IBOR Committee') to manage its transition to alternative rates. The objectives of the IBOR Committee include evaluating the extent to which loans and advances and islamic financing facilities and investments in Floating Rate Notes (FRN) have reference to IBOR cash flows, whether such contracts need to be amended as a result of IBOR reform and how to manage communication about IBOR reform with counterparties. The IBOR Committee meets regularly and updates the executive management team to support management of interest rate risk, and to identify operational risks arising from IBOR reform.

Financial assets:

The Bank's IBOR exposures on floating-rate loans and advances and islamic financing facilities and investments in FRN in USD to customers amounted to AED 853,710,000 as at 31 December 2020.

The IBOR Committee is in the process of establishing policies for amending the interbank offered rates on its existing floating-rate loan portfolio indexed to IBORs that will be replaced as part of the IBOR reform. The Bank expects to begin amending the contractual terms of its existing floating-rate assets in the year 2021; however, the exact timing will vary depending on the extent to which standardized language can be applied across certain loan types and the extent of negotiations between the Bank and loan counterparties.

35. Interest Rate Benchmark (IBOR) reform (continued)

Financial liabilities:

The Bank has floating-rate derivative liabilities indexed to 3-month IBOR's as shown in the table below denominated in USD and EUR. The IBOR committee has initiated discussions with the counterparties of our financial liabilities to adhere to the revised International Swaps and Derivatives Association (ISDA) protocols in preparation of the IBOR reform.

31 December 2020 AED'000	Negative fair value of derivative	Derivative notional amount
USD	(223,795)	2,069,001
EUR	(2,391)	45,106
	(226,186)	2,114,107

36. Comparative figures

Certain comparative figures have been reclassified where appropriate to conform to the presentation and accounting policies adopted in these financial statements.

Basel III - Pillar 3 Disclosures

These disclosures are being made in compliance with Circular No. 52/2017 dated 17 January 2018 issued by the Central Bank of the UAE and are in conformity with Basel III capital adequacy calculations for 31 December 2020 prepared in line with the circular. References have been made to the audited financial statements of 31 December 2020 for additional details only, where considered relevant.

These disclosures pertain to the operations of United Arab Bank (the "Bank") as at 31 December 2020.

A. Capital Structure

Category	Summarized terms & conditions and main features	2020 AED'000	2019 AED'000
Common Equity Tier 1 Capital			
1. Paid up share capital	Ordinary Shares of AED 1 each	**2,062,550**	2,062,550
2. Eligible reserves			
a. Statutory reserve	Under Federal Law No. (2) of 2015 and the Articles of Association of the Bank	**28,924**	504,671
b. Special reserve	Under Decretal Federal Law No. (14) of 2018	**-**	422,116
c. General Reserve	As per Shareholders' resolution on recommendation of the Board of Directors	**9,311**	9,311
d. Cumulative changes in fair value	Accumulated other comprehensive income	**9,224**	26,538
e. Accumulated Losses	After transfer of Net Loss and appropriations for the year	**(667,257)**	(897,863)
Common Equity Tier 1 Capital before regulatory adjustments and threshold deductions		**1,442,752**	2,127,323
Less: Regulatory adjustments and threshold deductions	IFRS transitional arrangement: Partial addback of ECL impact to CET1	**73,639**	-
	CBUAE Regulatory deductions: (amount exceeding Large Exposure threshold)	**(45,496)**	-
Total Common Equity Tier 1 Capital - Subtotal		**1,470,895**	2,127,323
Additional Tier 1 Capital		**-**	-
Tier 2 Capital			
General provisions	In terms of rules laid down by the Central Bank of the UAE	**133,649**	179,825
Tier 2 Capital - Subtotal		**133,649**	179,825
Total eligible Capital after deductions - Capital Base		**1,604,544**	2,307,148

B. Capital Adequacy

a) Qualitative Disclosures

The Bank has adopted the Standardized Approach for computation of Credit and Market Risks and the Basic Indicator Approach for Operational Risks, in terms of guidelines for implementation of Basel II capital accord issued by the Central Bank of the UAE under Circular No. 27/2009 dated 17 November 2009, which remain unchanged in the Circular No. 52/2017 dated 17 January 2018.

Risk Management objectives and policies

The Bank operates a Group Risk Department headed by the Chief Risk Officer (CRO). This department is responsible for managing all three risk segments, namely Credit, Market and Operational risks. The Bank also possesses a Board Audit Committee (BAC) and Board Risk Committee (BRC), which approves the Bank's policies on all audit and risk issues and provides oversight of the Audit, Risk and Compliance functions of the Bank. These steps ensure that the risk management framework has a solid foundation and is able to address all relevant risks in a coordinated and well-structured manner.

Credit Risk

Credit risk is the risk that a customer or counterparty will fail to meet a commitment, resulting in financial loss to the Bank. Such risk arises from lending, trade finance, treasury and other activities undertaken by the Bank. Credit risk is actively monitored in accordance with the credit policies which clearly define delegated lending authorities, policies and procedures. The management of credit risk also involves the monitoring of risk concentrations by industrial sector as well as geographic location.

The Bank has a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating which are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and to take corrective action.

Market Risk

The main components of the Bank's Market Risk are interest risk, foreign exchange risk and equity price risk.

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or re-price in a given period. The Bank's Treasury function manages this risk through monitoring of such gaps on a regular basis.

Fluctuations in exchange rates for different currencies are a source of Foreign Exchange Risk. The Board has established limits on the open Foreign Exchange position in order to manage such risks. These forex positions are monitored on a daily basis and hedging strategies are used by the Treasury function to ensure that positions are maintained within the established limits.

Equity Price risk arises due to fluctuations in prices of Bank's equity holdings. This risk is avoided by keeping exposures at very low levels, besides regular monitoring of the prices.

In addition to the above safeguards, market risks are also reviewed on a regular basis by the Bank's Asset and Liability Committee (ALCO) and corrective measures taken where considered necessary.

Operational Risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, and / or lead to financial loss.

The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage these risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff training and assessment processes (including the activities of Internal Audit).

B. Capital Adequacy (continued)

b) Quantitative Disclosures

In terms of Circular No. 52/2017 dated 17 January 2018 issued by the Central Bank of the UAE, the minimum capital requirement is 13.0% (including Capital Conservation buffer of 2.5% for 2020 (2019: 2.5%)) of Total Risk Weighted Assets.

As part of the capital stimulus package provided by the CBUAE under the TESS program, Banks are allowed to tap into the capital conservation buffer of 2.5% up to a maximum of 60% effective from 15 March 2020 until 31 December 2021. Upon full consumption of this capital relief, the minimum capital adequacy ratio requirement reduces to 11.5% (as opposed to 13.0% previously applicable) for reporting periods falling within the specified duration.

Computations of the Bank's Capital Adequacy Ratio are as follows:

Category	**2020 AED'000**	2019 AED'000
Risk Weighted Assets		
1. Credit Risk - Standardized Approach	**10,691,945**	14,385,957
2. Market Risk - Standardized Approach	**1,295**	2,440
3. Operational Risk - Basic Indicator Approach	**1,055,571**	1,258,429
Total Risk Weighted Assets	**11,748,811**	15,646,826
Capital Base	**1,604,544**	2,307,148
Capital Ratio (%)		
a. Total for the Bank	**13.7%**	14.7%
b. Tier 1 ratio only for the Bank	**12.5%**	13.6%

Basel III - Pillar 3 Disclosures

C. Credit Risk Under Standardized Approach

1. Details of Exposures, Risk Mitigants and Risk Weighted Assets as at 31 December 2020:

Category	On and Off Balance Sheet Exposures (Gross Outstanding) AED'000	Specific Provision & Interest in Suspense AED'000	Exposure Before Credit Risk Mitigants AED'000	Credit Risk Mitigants AED'000	Exposure after Credit Risk Mitigants AED'000	Exposure after Credit Conversion Factors (CCF) AED'000	Risk Weighted Assets AED'000
Claims on Sovereigns	2,839,397	-	2,839,397	-	2,839,397	2,839,397	99,378
Claims on Non-Commercial Public Sector Enterprises (PSEs)	438,701	-	438,701	-	438,701	438,701	-
Claims on Multi Lateral Development Banks	-	-	-	-	-	-	-
Claims on Banks	1,128,146	-	1,128,146	-	1,128,146	1,047,387	749,044
Claims on Securities Firms	-	-	-	-	-	-	-
Claims on Corporates and Government Related Enterprises (GREs)	8,944,968	-	8,944,968	-	8,944,968	8,025,057	6,338,405
Claims included in the Regulatory Retail Portfolio	630,059	-	630,059	-	630,059	630,059	480,538
Claims secured by Residential Property	1,541,268	-	1,541,268	-	1,541,268	1,541,268	583,719
Claims secured by Commercial Real Estate	1,252,731	-	1,252,731	-	1,252,731	1,252,731	1,252,731
Past Due Loans	1,596,317	(1,273,305)	323,012	-	323,012	290,925	336,651
Higher-Risk Categories	-	-	-	-	-	-	-
Other Assets	1,298,551	(382,674)	915,877	-	915,877	915,877	851,479
Securitization exposures	-	-	-	-	-	-	-
Credit Derivatives (Banks Selling Protection)	-	-	-	-	-	-	-
TOTAL	**19,670,138**	**(1,655,979)**	**18,014,159**	**-**	**18,014,159**	**16,981,403**	**10,691,945**

Details of Exposures, Risk Mitigants and Risk Weighted Assets as at 31 December 2019:

Category	On and Off Balance Sheet Exposures (Gross Outstanding) AED'000	Specific Provision & Interest in Suspense AED'000	Exposure Before Credit Risk Mitigants AED'000	Credit Risk Mitigants AED'000	Exposure after Credit Risk Mitigants AED'000	Exposure after Credit Conversion Factors (CCF) AED'000	Risk Weighted Assets AED'000
Claims on Sovereigns	3,541,520	-	3,541,520	-	3,541,520	3,541,520	143,237
Claims on Non-Commercial Public Sector Enterprises (PSEs)	669,456	-	669,456	-	669,456	669,456	-
Claims on Multi Lateral Development Banks	-	-	-	-	-	-	-
Claims on Banks	1,996,710	-	1,996,710	-	1,996,710	1,914,720	1,221,772
Claims on Securities Firms	-	-	-	-	-	-	-
Claims on Corporates and Government Related Enterprises (GREs)	11,814,526	-	11,814,526	-	11,814,526	10,603,357	9,151,047
Claims included in the Regulatory Retail Portfolio	786,908	-	786,908	-	786,908	786,908	601,361
Claims secured by Residential Property	1,952,600	-	1,952,600	-	1,952,600	1,952,600	869,958
Claims secured by Commercial Real Estate	1,072,472	-	1,072,472	-	1,072,472	1,072,472	1,072,472
Past Due Loans	1,302,655	(1,145,186)	157,469	-	157,469	157,469	190,767
Higher-Risk Categories	-	-	-	-	-	-	-
Other Assets	1,465,956	(249,553)	1,216,403	-	1,216,403	1,216,403	1,135,343
Securitization exposures	-	-	-	-	-	-	-
Credit Derivatives (Banks Selling Protection)	-	-	-	-	-	-	-
TOTAL	24,602,803	(1,394,739)	23,208,064	-	23,208,064	21,914,905	14,385,957

C. Credit Risk Under Standardized Approach (continued)

2. Details of Exposures by Industry segment as at 31 December 2020:

Category	Loans and Advances AED'000	Investments AED'000	Other Assets AED'000	Total Funded AED'000	Off Balance Sheet AED'000	Total Unfunded AED'000	Total Exposure AED'000
Agriculture, Livestock and Fishery	-	-	-	-	-	-	-
Extractive Industries	4,955	-	-	4,955	4,812	4,812	9,767
Manufacturing Industries	976,036	-	44,178	1,020,214	558,473	558,473	1,578,687
Electricity, Gas and Water	273,521	-	-	273,521	9,879	9,879	283,400
Construction	340,976	15,478	13,137	369,591	992,767	992,767	1,362,357
Wholesale / Retail Trade	1,328,501	-	158,331	1,486,832	466,677	466,677	1,953,509
Transportation, Storage & Communication	466,994	-	-	466,994	98,788	98,788	565,782
Real Estate and Business Services	1,346,083	-	-	1,346,083	-	-	1,346,083
Social and Private Services	1,026,001	-	25,840	1,051,841	216,204	216,204	1,268,046
Financial Services Sector	1,062,891	370,716	1,777,340	3,210,947	292,925	292,925	3,503,872
Government	300,000	2,857,288	-	3,157,288	-	-	3,157,288
Household / Personal	3,538,127	-	-	3,538,127	142,141	142,141	3,680,268
Others	5,098	37,609	918,267	960,974	105	105	961,079
TOTAL	**10,669,183**	**3,281,091**	**2,937,093**	**16,887,367**	**2,782,771**	**2,782,771**	**19,670,138**

Details of Exposures by Industry Segment as at 31 December 2019:

Category	Loans and Advances AED'000	Investments AED'000	Other Assets AED'000	Total Funded AED'000	Off Balance Sheet AED'000	Total Unfunded AED'000	Total Exposure AED'000
Agriculture, Livestock and Fishery	-	-	-	-	-	-	-
Extractive Industries	5,154	-	-	5,154	5,091	5,091	10,245
Manufacturing Industries	1,152,843	-	109,994	1,262,837	728,814	728,814	1,991,651
Electricity, Gas and Water	29,510	-	-	29,510	12,558	12,558	42,068
Construction	374,774	28,655	13,481	416,910	1,425,238	1,425,238	1,842,148
Wholesale / Retail Trade	1,903,288	-	168,374	2,071,662	564,261	564,261	2,635,922
Transportation, Storage & Communication	497,052	-	-	497,052	102,520	102,520	599,573
Real Estate and Business Services	1,112,374	-	-	1,112,374	-	-	1,112,374
Social and Private Services	1,361,177	-	20,490	1,381,667	263,217	263,217	1,644,884
Financial Services Sector	1,434,078	415,947	3,005,529	4,855,554	523,151	523,151	5,378,705
Government	687,491	3,018,912	-	3,706,403	-	-	3,706,403
Household / Personal	4,472,608	-	-	4,472,608	136,238	136,238	4,608,846
Others	258	38,454	991,148	1,029,860	124	124	1,029,984
TOTAL	13,030,607	3,501,968	4,309,016	20,841,591	3,761,212	3,761,212	24,602,803

C. Credit Risk Under Standardized Approach (continued)

3. Gross Exposure under Standardized Approach based on External Ratings

a) Qualitative Disclosures

For purposes of computing Risk Weighted Assets, only ratings assigned by ECAIs (External Credit Assessment Institutions) as approved by the Central Bank of the UAE are considered. Acceptable ECAI agencies are Moody's, Fitch and S&P

b) Quantitative Disclosures

Gross Exposure before Credit Risk Mitigants (CRM)

	2020			2019		
Category	Rated AED'000	Unrated AED'000	Total AED'000	Rated AED'000	Unrated AED'000	Total AED'000
Claims on Sovereigns	1,122,973	1,716,424	2,839,397	3,005,537	535,983	3,541,520
Claims on Non-Commercial Public Sector Enterprises (PSEs)	194,760	243,941	438,701	281,965	387,491	669,456
Claims on Multi Lateral Development Banks	-	-	-	-	-	-
Claims on Banks	1,010,649	117,497	1,128,146	1,811,225	185,485	1,996,710
Claims on Securities Firms	-	-	-	-	-	-
Claims on Corporates and Government Related Enterprises (GREs)	1,241,054	7,703,914	8,944,968	1,363,585	10,450,941	11,814,526
Claims included in the Regulatory Retail Portfolio	-	630,059	630,059	-	786,908	786,908
Claims secured by Residential Property	-	1,541,268	1,541,268	-	1,952,600	1,952,600
Claims secured by Commercial Real Estate	-	1,252,731	1,252,731	-	1,072,472	1,072,472
Past Due Loans	-	1,596,317	1,596,317	-	1,302,655	1,302,655
Higher-Risk Categories	-	-	-	-	-	-
Other Assets	-	1,298,551	1,298,551	-	1,465,956	1,465,956
Securitization exposures	-	-	-	-	-	-
Credit Derivatives (Banks Selling Protection)	-	-	-	-	-	-
TOTAL	**3,569,436**	**16,100,702**	**19,670,138**	6,462,312	18,140,491	24,602,803

4. Exposure by Currency Type

The Bank's exposures are mainly in local currency, hence, risk of exposures in foreign currency is minimal. For details kindly refer to Note 27 "Risk Management – Currency Risk" of the Notes to the Financial Statements as at 31 December 2020.

5. Exposure by Geographical Region

The Bank has branches only in the UAE, hence, its exposures are mainly within the country. For details kindly refer to Note 27 "Risk Management – Credit Risk" of the Notes to the Financial Statements as at 31 December 2020.

6. Exposure by Economic Sector

For details kindly refer to Note 27 "Risk Management" of the Notes to the Financial Statements as at 31 December 2020.

7. Exposures by Residual Contractual Maturity

For details kindly refer to Note 27 "Risk Management – Liquidity Risk" of the Notes to the Financial Statements as at 31 December 2020.

C. Credit Risk Under Standardized Approach (continued)

8. Past Due and Impaired Loans

a) Qualitative Disclosures

Definitions of past due and impaired

Past due accounts are those where the obligations are not met on the due date.

A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more event(s) that has occurred after the initial recognition of the asset, and based on reliable estimates which impact(s) future cash flows of the financial asset or group of financial assets.

Evidence of impairment may include: (a) indications that the borrower or a group of borrowers is experiencing significant financial difficulty; (b) the probability that they will enter bankruptcy or other financial re-organisation; (c) past due contractual payments of either principal or interest; (d) breach of loan covenants or conditions; (e) decline in the realizable value of security; and (f) a significant downgrading in credit rating by an external credit rating agency.

Following the adoption of IFRS 9 effective 1 January 2018, the Bank recognizes impairment based on an expected credit loss (ECL) model, replacing the incurred loss methodology under IAS 39.

The Bank applies a three-stage approach to measuring expected credit losses on financial instruments accounted for at amortised cost and fair value through other comprehensive income (FVOCI). Assets migrate through the following three stages based on the change in credit quality since initial recognition:

i) Stage 1: 12-month ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognized.

ii) Stage 2: Lifetime ECL – not credit impaired

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognized.

iii) Stage 3: Lifetime ECL – credit impaired

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. This uses the same criteria as under IAS 39, the Bank's methodology for specific provisions remains unchanged. For financial assets that have become credit impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

For details, kindly refer to Note 3 “Significant accounting policies” of the Notes to the Financial Statements as at 31 December 2020.

C. Credit Risk Under Standardized Approach (continued)

b) Quantitative Disclosures

- Past due and impaired Loans by Industry Segment as at 31 December 2020:

Category	Past due but not impaired				Impaired Loans	Provision & Interest in Suspense
	0-30 days past due AED'000	31-60 days past due AED'000	61-90 days past due AED'000	Over 91 days past due AED'000	AED'000	AED'000
Agriculture, Livestock and Fishery	-	-	-	-	-	-
Extractive Industries	-	-	-	-	-	-
Manufacturing Industries	5,067	462	-	-	372,108	282,701
Electricity, Gas and Water	31,349	21,151	-	-	-	-
Construction	1,081	-	-	1,329	24,995	18,262
Wholesale / Retail Trade	13,927	1,378	2,728	4,783	175,301	121,264
Transportation, Storage and Communication	-	-	-	-	218,275	181,657
Real Estate and Business Services	2,300	-	-	-	-	-
Social and Private Services	23,055	514	-	-	377,169	333,797
Financial Services Sector	2,262	-	-	-	88,129	46,846
Government	-	-	-	-	-	-
Household / Personal	17,232	709	2,438	3,942	421,222	288,778
TOTAL	**96,274**	**24,215**	**5,166**	**10,053**	**1,677,199**	**1,273,305**

- Past due and impaired loans by industry segment as at 31 December 2019:

Category	Past due but not impaired				Impaired Loans	Provision & Interest in Suspense
	0-30 days past due AED'000	31-60 days past due AED'000	61-90 days past due AED'000	Over 91 days past due AED'000	AED'000	AED'000
Agriculture, Livestock and Fishery	-	-	-	-	-	-
Extractive Industries	-	-	-	-	-	-
Manufacturing Industries	1,742	1,715	90	4,419	378,039	259,420
Electricity, Gas and Water	9	-	-	-	8,482	8,382
Construction	9,414	4,975	2,022	-	26,342	11,689
Wholesale / Retail Trade	13,101	14,356	2,280	4,384	347,834	303,728
Transportation, Storage and Communication	787	-	-	-	160,681	143,487
Real Estate and Business Services	397	2,051	327	13,095	-	-
Social and Private Services	3,303	3,592	3,946	-	291,974	277,744
Financial Services Sector	27	-	-	-	85,971	46,327
Government	-	-	-	-	-	-
Household / Personal	5,578	2,387	441	10,447	184,497	94,409
TOTAL	34,358	29,076	9,106	32,345	1,483,820	1,145,186

C. Credit Risk Under Standardized Approach (continued)

b) Quantitative Disclosures (continued)

- Past due and impaired loans by Geographical Region as at 31 December 2020:

Geographic Region	**Past due but not impaired**				**Impaired Loans**	**Provision & Interest in Suspense**
	0-30 days past due AED'000	**31-60 days past due AED'000**	**61-90 days past due AED'000**	**Over 91 days past due AED'000**	**AED'000**	**AED'000**
United Arab Emirates	**96,274**	**24,215**	**5,166**	**10,053**	**1,677,199**	**1,273,305**
TOTAL	**96,274**	**24,215**	**5,166**	**10,053**	**1,677,199**	**1,273,305**

- Past due and impaired loans by Geographical Region as at 31 December 2019:

Geographic Region	Past due but not impaired				Impaired Loans	Provision & Interest in Suspense
	0-30 days past due AED'000	31-60 days past due AED'000	61-90 days past due AED'000	Over 91 days past due AED'000	AED'000	AED'000
United Arab Emirates	34,358	29,076	9,106	32,345	1,483,820	1,145,186
TOTAL	34,358	29,076	9,106	32,345	1,483,820	1,145,186

Reconciliation of changes in Provision for Loans	**2020 AED'000**	2019 AED'000
Balance as at 1 January	**1,467,117**	1,143,713
IFRS 9: Charge for the year		
Stage 3 specific provision	**625,637**	457,249
Stage 1 and 2 ECL charge / (release)	**60,308**	(41,866)
Less: Write off of impaired loans	**(497,518)**	(91,979)
Less: Recovery of loans previously written off	**-**	-
Less: Write back of provisions for loans	**-**	-
Less: Adjustments of loan loss provisions	**-**	-
Balance as at 31 December	**1,655,544**	1,467,117

C. Credit Risk Under Standardized Approach (continued)

9. Credit Risk Mitigation – Disclosures for Standardized Approach

a) Qualitative Disclosures

The Bank has a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating which is subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and to take corrective action.

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The main types of collateral obtained are cash, securities, charges over real estate, inventory and trade receivables. The Bank also obtains guarantees from parent companies for loans to their subsidiaries or other Group companies.

The Bank monitors the market value of collateral, and requests additional collateral in accordance with the underlying agreement. It also monitors the market value of collateral obtained, during its review of the adequacy of the allowance for impairment losses. It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

Exposures	**2020 AED'000**	2019 AED'000
Gross Exposure prior to Credit Risk Mitigation	**18,014,159**	23,208,064
Credit Risk Mitigants		
- Direct Deductions:		
Exposure covered by on-balance sheet netting	**-**	-
- Substitution by Risk Weights:		
Exposure covered by Guarantees		
from 100%	**-**	-
to 20%	**-**	-
50%	**-**	-
100%	**-**	-
Exposures covered by collaterals under simple approach		
from 150%	**-**	-
from 100%	**(738,412)**	(820,142)
from 75%	**-**	-
to 0%	**738,412**	820,142
Net Exposures after Credit Risk Mitigation	**18,014,159**	23,208,064
Risk Weighted Assets	**10,691,945**	14,385,957

D. Market Risk Under Standised Approach

1. Capital required against Market Risk and Equivalent Risk Weighted Asset

	2020 Capital Required AED'000	2019 Capital Required AED'000
Interest rate risk	-	-
Equity position risk	-	-
Foreign exchange risk	136	256
Commodity risk	-	-
Options risk	-	-
Total Capital Requirement	**136**	256
Risk Weighted Assets (Capital requirement divided 10.5%)	**1,295**	2,440

2. Interest Rate Risk

The Bank has nominal Interest Rate Risk on its Trading Book, as shown above.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's income statement. There is no material impact on the Bank's equity.

The sensitivity of the consolidated statement of income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2020, including the effect of hedging instruments.

	2020		2019	
	Change in Basis Points	**Sensitivity of Interest Income AED'000**	Change in Basis Points	Sensitivity of Interest Income AED'000
All currencies	**+200**	**185,081**	+200	191,554
All currencies	**-200**	**(185,081)**	-200	(191,554)

The interest rate sensitivity set out above relates primarily to the US Dollar as the Bank does not have any significant net exposure for non-trading floating rate financial assets and financial liabilities denominated in other currencies.

3. Equity Position Risk

The Bank has no Equity Position on its Trading Book, hence Capital required is nil. However, there are a few investments in its banking book under FVOCI category. For details please refer to Note 9 "Investments" of Notes to the Financial Statements at 31 December 2020.

4. Foreign Exchange Risk

For details of Foreign Exchange Risk on both trading and banking books please refer Note 27 "Risk Management – Currency Risk" of the Notes to the Financial Statements at 31 December 2020. As the AED is pegged to the USD, positions in USD and other GCC currencies pegged to the USD are excluded.

5. Options Risk

The Bank's exposure in Options bought and sold are perfectly matched; hence there is no capital charge on such positions.

D. Market Risk Under Standised Approach (continued)

6. Revaluations Gains / (Losses) During the Year

The Bank accounts for changes in fair values of FVOCI investments (both debt and equity) through Equity. Details of such charges are provided in “Statement of Other Comprehensive Income” in the Financial Statements at 31 December 2020.

Gains / (losses) due to changes in fair values added to / (deducted from) Tier 1 / Tier 2 Capital are as follows:

	2020 AED’000	2019 AED’000
Amount added to Common Equity Tier 1 capital	**9,224**	26,538
Amount added to Tier 2 capital	**-**	-
Total	**9,224**	26,538

E. Operational Risk - Basic Indicator Approach

Computation of Capital Charge and Risk Weighted Assets equivalent for Operational Risk is as follows:

		2020 AED’000		2019 AED’000
Gross Income (including Interest in suspense)	**2018**	**669,699**	2017	721,638
	2019	**622,150**	2018	669,699
	2020	**397,064**	2019	622,150
		1,688,913		2,013,487
3-year average		**562,971**		671,162
Beta factor		**15%**		15%
Capital requirement before applying National Discretion		**84,446**		100,674
UAE National Discretion Factor		**1.313**		1.313
Capital requirement after applying National Discretion		**110,835**		132,135
Risk Weighted Assets equivalent (Capital requirement divided by 10.5%)		**1,055,571**		1,258,429

F. Regulatory Adjustments

a) IFRS Transitional Arrangement

On 22nd April 2020, the Central Bank of UAE issued its “Regulation Regrading Accounting Provisions & Capital requirements – Transitional Arrangements”. This regulation provides for a “Prudential Filter” that permits Banks to add back increases in IFRS 9 provisions to the regulatory capital over a transitional period of 5 years on a proportionate basis. The increase in IFRS 9 provision requirements is determined by calculating the difference between the IFRS 9 stage 1 & 2 provisions as at 31st December 2019 and the IFRS 9 provision as of the respective reporting date.

b) Amount exceeding Large Exposure threshold

As at 31st December 2020, the Bank had exceeded some of its large exposure limits. As such, the Bank has deducted a capital surcharge of one dirham for each dirham exceeding the large exposure limits from its capital base in line with CBUAE Notice No. 226/2018.

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